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S. HRG. 99-223, PT. 2

TEXTILE AND APPAREL TRADE ENFORCEMENT ACT

ORIGINAL

HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

SEPTEMBER 12 AND 23, 1985

PART 2 OF 2

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THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT

THURSDAY, SEPTEMBER 12, 1985

U.S. SENATE,
COMMITTEE ON FINANCE,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room SD-215, Dirksen Senate Office Building, the Honorable John Danforth (chairman) presiding.

Present: Senators Danforth, Chafee, Heinz, Grassley, Matsunaga, Baucus, Bradley, and Mitchell.

[The press release announcing the hearing, background information on S. 680, and the prepared statements of Senators Mitchell and Pryor follow:]

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, DC, September 11, 1985.

Memo from: Finance Committee Staff (Len Santos 4-5472).
To: Members, Finance Committee,
Subject: Trade Subcommittee Hearings on S. 680, "The Textile and Apparel Trade Enforcement Act of 1985".

The Finance Committee's Trade Subcommittee will conduct additional hearings on S. 680 on September 12 at 2:00 p.m. and September 23 at 9:30 a.m. A witness list for the September 12 hearing is attached.

The updated statistical chart in Table 8 indicates that imports of textile and apparel products for the first two quarters of 1985 were comparable to 1984 Also attached at Tables 9, 10 and 11 are GATT statistics comparing U.S. production, employment, and import and export trends in textiles and apparel with those of other countries. These statistics indicate that U.S. production indices in textile and apparel were higher than the E.C., Japan or Scandinavia, but substantially lower than Korea, Yugoslavia, Brazil or Poland. U.S. employment in textiles and apparel has dropped less than in the E.C., and, in textiles, less than Japan, but has dropped more than Canada or most of the ASEAN countries. Textile and apparel imports have grown faster in the United States than in any other country, but Japan and Canada have experienced substantial import growth as well.

The Committee memorandum prepared for the July 15, 1985 hearing on S. 680 is also attached.

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, DC, August 9, 1985.

Press Release No. 85-0062

FINANCE SUBCOMMITTEE RESETS DATE, TIME FOR S. 680 HEARING

A September hearing on S. 680, the Textile and Apparel Trade Enforcement Act of 1985, has been reset by the Senate Committee on Finance, Chairman Bob Packwood (R-Oregon) announced today.

Senator Packwood said the hearing before the Committee's Subcommittee on International Trade originally scheduled for Monday, September 16 will instead be held at 2 p.m., Thursday, September 12, 1985. An additional hearing will be held as originally scheduled at 9:30 a.m., Monday, September 23.

Both hearings will be held in Room SD-215 of the Dirksen Senate Office Building in Washington.

Senator John C. Danforth (R-Missouri), Chairman of the Subcommittee on International Trade, will preside at the hearings.

Senator Packwood noted the Subcommittee had opened hearings on S. 680 with a five and one-half hour session July 15. Senator Strom Thurmond (R-South Carolina) is chief sponsor of S. 680.

A markup of S. 680 is to be scheduled by the Committee on Finance in October, Senator Packwood has said.

BACKGROUND INFORMATION ON TRADE SUBCOMMITTEE HEARING ON S. 680, "THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985," PREPARED BY COMMITTEE ON FINANCE STAFF

The Subcommittee on International Trade of the Finance Committee will conduct a hearing on Monday, July 15, 1985 at 2:30 p.m. on S. 680, the Textile and Apparel Trade Enforcement Act of 1985. A list of the witnesses testifying at the hearing is attached.

I. ANALYSIS OF S. 680

Sections 1 and 2 of the Act cite S. 680 as "The Textile and Apparel Trade Enforcement Act of 1985" and state its purpose as being to provide orderly, nondisruptive imports growth, implementing the objectives of the Multifiber Arrangement (MFA). Section 3 provides a general analysis of industry and trade conditions.

Under Section 4 of the Act, imports from Canada and members of the European Community (EC) would be excluded from all of the Act's restrictions. In addition, imports from Mexico and the Caribbean Basin would be excluded from the definition of major supplying countries; therefore they would be subject to the less restrictive quotas given to imports from smaller supplying countries. Imports from Mexico and the Caribbean Basin would also be excluded from the definition of import sensitive categories and therefore would be exempt from the tighter growth restrictions placed on import sensitive categories from other smaller suppliers.

Section 4 would include many products and fibers which heretofore have not been part of the quota program. Products of all textile fibers, including those of silk, linen, ramie, and jute, would be subject to restrictions, whereas the current Multifiber Arrangement (MFA) covers only products of cotton, wool, and man-made fibers. In addition, many products of MFA textile fibers, not currently defined by MFA categories, such as raw man-made fibers, furniture of textile materials, parachutes, and stuffed dolls, would be categorized and automatically subject to restrictions.

Section 5 of S. 680 would separate textile and apparel import sources into major suppliers (those other than Canada, Mexico and the EC countries which account for 1.25 percent or more of imports for a given year) and smaller supplying countries. For imports from major supplying countries, it would establish 1985 quotas on textile and apparel imports which would result in substantial rollbacks from the 1984 import levels from each of these countries and in total. During 1984, imports from the 12 countries categorized as major suppliers by S. 680—Taiwan, Korea, Hong Kong, Japan, China, Pakistan, Indonesia, India, the Philippines, Thailand, Brazil and Singapore—accounted for 73 percent of total textile and apparel imports by quantity. In contrast, for imports from smaller supplying countries, Section 5 would set 1985 quotas at levels that would permit increases in their overall market shares. Further growth in both cases would be controlled, with higher annual growth rate being permitted on imports from smaller supplying countries (six percent) than on imports from major suppliers (one percent). The exceptions to this would be imports from import sensitive product categories or a wool product category which would be permitted only a one percent annual growth, even if sourced from a smaller supplier.

Section 6 of the Act would establish an import licensing system to be administered by the Secretary of Commerce. Importers from all countries, including Canada and the EC, would be required to obtain permits and pay fees to cover costs of the system. Section 7 provides for annual reporting by the President. Finally, Section 8 provides for the effective date and permits utilization of 1986 quota allocations for

1985 imports in cases where goods already entered at the time of S. 680's enactment exceed the Act's new 1985 import limits.

II. STRUCTURE OF THE DOMESTIC TEXTILE AND APPAREL INDUSTRY

Apparel was manufactured in approximately 23,300 establishments and textile mill products in 6,600 establishments during 1982, representing declines of about eight percent from their 1977 levels. Major apparel manufacturing states were in New York, Pennsylvania, and California, which together accounted for approximately 30 percent of apparel employment. The production of textile mill products was heavily concentrated in the states of North Carolina, South Carolina, and Georgia, which together accounted for about 60 percent employment.

Employment in the apparel industry declined during 1980–1984 to 1,201,600 workers representing a loss of almost 62,000 workers, according to the Bureau of Labor Statistics. Similarly, employment in the textile mill products industry declined during 1980–1984 to 752,900 workers, a loss of about 95,000 workers. Wages for production workers during 1984 were $5.53 per hour in apparel and $6.46 per hour in textile mill products. See Table 1 for employment, wage, and related data.

Although employment in textiles and apparel has declined in the eight largest producing states accounting for 95 percent of all textile and apparel employment, those states have experienced net gains in employment.

There has been a large increase in employment in those states. 1,900,000 new jobs were created in those states in the non-manufacturing sectors, while 170,000 manufacturing jobs were lost, a net gain of 1,600,000 jobs between 1980 and 1984.

In three of those states, North Carolina, Georgia and California, there have been increases in employment in other manufacturing industries which more than account for the jobs lost in textiles and apparel.

In addition, unemployment rates in the textile and apparel employer states are not necessarily higher than in other states. Most notably, in North Carolina and Georgia, the two largest employers in the industry with 500,000 of the 1.8 million jobs had manufacturing unemployment rates of 5.8 and 5.6 percent in 1984, compared to the national rate of 7.5 percent. See Table 2.

III. PRODUCTION, CONSUMPTION AND TRADE DATA

During 1980–84, producers' shipments of apparel rose by 25 percent to $57 million and apparent consumption rose by 38 percent to $70 billion (see Table 3). In contrast, apparel imports rose by 114 percent to $14 billion in 1984. For textile mill products, producers' shipments rose by 23 percent during 1980–84 to $58 billion and consumption rose by 28 percent to almost $60 billion while imports rose by 73 percent to $3.5 billion. Exports of apparel and textile mill products declined over 30 percent in the period to $1 billion and $1.6 billion respectively. In dollar terms, imports rose to 20 percent of apparel consumption and 5.9 percent of textile mill production consumption in 1984. Several other methods are used by industry and labor to calculate import penetration. The Textile Economics Bureau uses the raw fiber equivalent of yarns and fabrics imported for apparel production, as well as actual apparel imports. This method shows that imports supplied 42.6 percent of the fibers available for domestic apparel consumption during 1984 (see Table 4). Calculations by the International Ladies' Garment Workers Union, which adjusts the value of imports to equivalent U.S. dollar values, show a projected 1984 import penetration of 49.8 percent for apparel (see Table 5).

Hong Kong, Taiwan, Korea, China and Italy were major sources of textile apparel imports during 1984 (see Table 6). Imports from column 2 countries accounted for less than one percent of total imports.

Apparel imports of linen, ramie and silk, which would be subject to restrictions for the first time under S. 680, increased by 143 percent during 1984 to $1.2 billion. Similarly subject to restrictions under S. 680 for the first time, fabric imports of silk, linen, ramie and jute rose by 44 percent during 1984 to 360 million, while fiber, yarn and thread imports of these materials increased by 19 percent during 1984 to $39 million.

IV. HISTORY AND STRUCTURE OF THE MFA

The Arrangement Regarding International Trade in Textiles, known as the Multifiber Arrangement or MFA, went into affect on January 1, 1974 with the basic objective of ensuring: "the expansion of trade in textile products, particularly for the developing countries, and progressively to achieve the reduction of trade barriers and the liberalization of trade in textile products, while, at the same time, avoiding disruptive effects on individual markets and on individual lines of production in both importing and exporting countries."

The MFA, which was renewed in 1977 and in 1981 and is again up for renewal in July 1986, is the successor to other less comprehensive multilateral textile agreements that were initiated in the early 1960s.

The MFA is an exception to the most-favored-nation principle of the GATT in that it allows importing countries to apply restrictions selectively in terms of products and exporting countries. GATT rules would ordinarily require no less favorable treatment to all members countries and a product by product determination of injury before import restraints could be imposed. Exporting countries accepted this arrangement in part because it appeared to provide assurance of access to developed countries' markets and to reduce the likelihood of other less predictable forms of trade restrictions.

The MFA endeavors to balance the interests of its participants by providing standards for year to year quota growth and flexibility for the exporting countries, but also sets forth criteria under which importing countries can negotiate or set quotas. However, when the MFA was renewed in 1977 and in 1981, the developed countries negotiated authority to depart from certain MFA standards and enter into some bilateral agreements, particularly with major suppliers, which provided for reduced growth and/or flexibility.

The MFA also established the Textile Surveillance Board which reviews all actions taken for conformity with the MFA standards and, where disputes arise, makes nonbinding recommendations to the governments involved. The United States, the European Community and Japan are permanent members of the TSB. Other members are chosen for annual terms by other MFA participants. The GATT Textiles Committee consists of all parties to the MFA. It annually reviews operations of the Arrangement and deals with matters referred to it by the TSB.

As of mid 1984, the United States had bilateral agreements limiting exports of textiles with 28 countries, of which 24 were negotiated under the MFA and four others under the authority under section 204 of the Agricultural Act of 1956 (see Table 7). In addition, the United States unilaterally controlled specific items from three other countries, one of which was a MFA signatory. These agreements and unilateral controls provided for limitations on approximately six billion square yard equivalents (sye) of textiles and textile products on either a specific or a consultation basis.

During the first ten years of the MFA (1974-83), U.S. textile and apparel employment declined by 15 percent, from 2,328,000 to 1,980,000, and U.S. textile output increased by an average of less than one percent annually. The overall quantity of imports fluctuated with no definite trend during 1974-80, but increased from 4.9 billion sye in 1980 to 7.6 billion sye in 1983 and increased to 9.8 billion sye in 1984, or by 100 percent. As a result of imports growing at a faster rate than domestic consumption, the ratio of imports to consumption (based on the quantity of fiber used), increased from 8.4 percent in 1974 to 16 percent in 1983 and to an estimated 22 percent in 1984.

V. EFFECTS OF S. 680

Under S. 680, quotas on imports from major supplying countries would be based on the 1984 levels which would have occurred had imports from these countries, by product category, grown since 1980 by six percent per year. Where a country entered into an agreement with the United States providing for a lower than six percent growth rate, the quota is based on actual 1984 imports. The 1985 quota levels for major suppliers would be calculated by adding one percent to the 1984 import levels described above. Import quotas for 1985 by product category for smaller suppliers would be 15 percent above the actual 1984 imports. In the case of import sensitive categories from smaller suppliers, the 1985 quota levels would be one percent above actual 1984 imports. The effect of these quota levels would be dramatic in the case of certain major supplying countries. The Department of State calculates that the bill will result in a 90 percent rollback on imports from Indonesia and Brazil, a 70 percent rollback on imports from Thailand, and almost a 60 percent rollback on those from China.

A number of questions may be raised about the consistency of S. 680 with the provisions of the MFA. The Protocol of Extension to the MFA, adopted in 1981, states: "in exceptional cases where there is a recurrence or exacerbation of a situation of market disruption, a lower positive growth rate for a particular product from a particular source may be agreed upon between the parties to a bilaterial agreement."

In contrast, S. 680 provides for automatic quotas following specific formulas, without a finding of case by case market disruption or the threat thereof. In addition, quotas would be applied unilaterally by the United States, rather than by being "agreed upon between the parties."

Within the MFA, article 3 section 5 states that after a finding of market disruption and after a request for consultations to limit imports has been made, two countries cannot reach an agreement, then unilateral restraint levels may be applied for a "twelve month period." S. 680 would impose no time limit on its unilateral actions.

Finally, this legislation would estsablish an import licensing system and charge permit fees to cover its costs. To the extent that these fees are construed as being additional import duties, they would raise tariffs above those duty rates negotiated during the Tokyo Round of Multilateral Trade Negotiations.

TABLE 1.—APPAREL AND TEXTILE MILL PRODUCTS: U.S. PRODUCERS' SHIPMENTS IN 1972 DOLLARS, EMPLOYMENT, WAGES, PAYROLL INDEX, AND PRODUCTIVITY, 1974–84

Year	Producers' shipment	Total employment	Total payroll	Production workers	Average hourly wages, production workers	Index of productivity [1]
	(Millions 1972 dollars [2])	(In thousands)	(1974–100)	(In thousands)	(In real dollars)	1977–100
			Apparel (SIC 23)			
1974	26,557	1,362.6	100.00	1,174.8	2.98	88.5
1975	26,606	1,243.3	96.73	1,066.6	3.17	94.5
1976	27,913	1,318.1	112.60	1,134.3	3.40	94.5
1977	30,549	1,316.2	118.41	1,129.4	3.62	100.0
1978	31,377	1,332.3	130.43	1,144.6	3.94	104.2
1979	29,763	1,304.3	135.53	1,116.7	4.23	98.1
1980	29,717	1,263.4	141.91	1,079.4	4.56	97.3
1981	30,018	1,244.4	152.90	1,059.5	4.97	103.3
1982	30,908	1,161.1	144.19	981.2	5.20	[4]
1983	[3] 31,617	1,164.1	155.66	984.3	5.37	[4]
1984	[3] 31,947	1,201.6	166.47	1,016.5	5.53	[4]
			Textile mill products (SIC 22)			
1974	25,572	965.0	100.00	842.2	3.20	80.7
1975	25,251	867.9	94.83	752.4	3.41	89.6
1976	27,771	918.8	111.06	800.4	3.69	91.8
1977	30,347	910.2	119.68	792.3	3.99	100.0
1978	30,593	899.1	127.69	783.1	4.30	102.3
1979	30,889	885.1	136.19	770.9	4.66	104.8
1980	29,511	847.7	140.65	736.9	5.08	104.8
1981	28,694	823.0	146.23	712.5	5.52	106.6
1982	27,360	749.4	131.84	642.1	5.83	[4]
1983	[3] 30,260	743.5	150.50	641.1	6.18	[4]
1984	[3] 31,077	752.9	157.44	651.2	6.46	[4]

[1] Represents output per employee hour (index of output/index of employee hours), and was compiled from unpublished data of the Bureau of Labor Statistics based on data derived from the Bureau of the Census. The data must be used with caution, as it does not meet the publication standards of BLS.

[2] Calculated by the Bureau of Economic Analysis, U.S. Department of Commerce.

[3] Estimated by the Bureau of Economic Analysis, U.S. Department of Commerce.

[4] Not available.

Source: Compiled from official data of the Bureau of Labor Statistics, U.S. Department of Labor, except as noted.

TABLE 2.—EMPLOYMENT TRENDS IN MAJOR TEXTILE AND APPAREL EMPLOYER STATES

[Employees in thousands]

State and type of employment	Number of employees		Employment change 1980–84	Annual percentage change
	1980	1984		
North Carolina:				
Total [1]	2,380	2,562	182	1.8
Textile and apparel	334	312	−22	−1.7
Other manufacturing	486	519	33	1.6
Nonmanufacturing	1,560	1,731	171	2.6
Georgia:				
Total	2,159	2,458	299	3.2
Textile and apparel	190	180	−10	−1.3
Other manufacturing	329	365	39	2.5
Nonmanufacturing	1,640	1,913	273	3.8
New York:				
Total	7,207	7,557	350	1.2
Textile and apparel	206	177	−29	−3.8
Other manufacturing	1,239	1,153	−86	−1.8
Nonmanufacturing	5,762	6,227	+465	1.9
South Carolina:				
Total	1,189	1,270	81	1.6
Textile and apparel	183	163	−20	−2.9
Other manufacturing	209	215	6	0.7
Nonmanufacturing	797	892	95	2.8
Pennsylvania:				
Total	4,753	4,647	−106	−0.6
Textile and apparel	168	148	−20	−3.2
Other manufacturing	1,160	972	−188	−4.4
Nonmanufacturing	3,425	3,527	+102	0.7
California:				
Total	9,852	10,553	701	1.7
Textile and apparel	121	123	2	0.4
Other manufacturing	1,887	1,924	37	0.4
Nonmanufacturing	7,844	8,506	662	2.0
Tennessee:				
Total	1,747	1,809	62	0.9
Textile and apparel	96	95	−1	−0.3
Other manufacturing	407	403	−4	−0.2
Nonmanufacturing	1,244	1,311	67	1.3
Alabama:				
Total	1,356	1,384	28	0.5
Textile and apparel	97	94	−3	−0.8
Other manufacturing	266	264	−2	−0.2
Nonmanufacturing	993	1,026	33	0.8

[1] All nonagricultural employment.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

TABLE 3.—APPAREL AND TEXTILE MILL PRODUCTS: U.S. PRODUCERS' SHIPMENTS, EXPORTS, GENERAL IMPORTS, AND APPARENT CONSUMPTION, 1974–84

[In millions of dollars]

Year	Producers' shipments	Exports	Imports	Apparent consumption	Ratio (percent) of imports to consumption
	Apparel (SIC 23) [1]				
1974	30,632	593	2,465	32,504	7.6
1975	31,430	603	2,775	33,602	8.3
1976	34,759	740	3,912	37,931	10.3
1977	40,245	859	4,393	47,779	10.0
1978	42,742	1,035	5,722	47,429	12.1
1979	43.030	1,387	5,902	47,545	12.4
1980	45,782	1,604	6,543	50,721	12.9
1981	49,823	1,628	7,750	55,945	13.9
1982	53,406	1,236	8,432	60,602	15.4
1983	[2] 55,435	1,049	9,897	64,283	15.4
1984	[2] 57,287	1,099	14,000	70,188	20.0
	Textile mill products (SIC 22) [3]				
1974	32,789	1,284	1,407	32,912	4.3
1975	31,064	1,157	1,107	31,014	3.6
1976	36,389	1,399	1,392	36,382	3.8
1977	40,550	1,345	1,489	40,694	3.7
1978	42,281	1,466	1,855	42,670	4.3
1979	45,053	2,130	1,834	44,757	4.1
1980	47,160	2,488	2,034	46,706	4.4
1981	50,120	2,326	2,482	50,276	4.9
1982	47,791	1,766	2,225	48,250	4.6
1983	[2] 53,984	1,560	2,557	54,981	4.7
1984	[2] 57,834	1,583	3,519	59,770	5.9

[1] Apparel as reported in SIC 23 includes home furnishings other than floor coverings, and some miscellaneous fabricated textile products.

[2] Estimated by the International Trade Administration, U.S. Department of Commerce.

[3] Textile mill products as reported in SIC 22 includes some underwear, hosiery, sweaters, and other garments wholly manufactured in knitting mills.

Source: Compiled from official statistics of the U.S. Department of Commerce.

TABLE 4—APPAREL:[1] U.S. PRODUCERS' SHIPMENTS, IMPORTS FOR CONSUMPTION, EXPORTS OF DOMESTIC MERCHANDISE, AND APPARENT CONSUMPTION, 1980–84

Item	1980	1981	1982	1983	1984
U.S. producers' shipments of materials for manufacture into apparel (million pounds)	4,359	3,895	3,502	3,900	3,483
U.S. imports of:					
Yarn for apparel (million pounds)	107	201	186	287	361
Fabric for apparel (million pounds)	262	398	343	461	579
Finished apparel (million pounds)	885	983	1,044	1,258	1,529
Total (million pounds)	1,254	1,582	1,573	2,006	2,469
U.S. exports of finished garments (million pounds)	313	249	158	146	150
Apparent apparel consumption (million pounds)	5,300	5,228	4,917	5,760	5,802
Ratio of imports to consumption (percent)	23.7	30.3	32.0	34.8	42.6

[1] Represents raw fiber equivalent of cotton, wool, and manmade fiber products available for domestic apparel production. All data estimated by Textile Economics Bureau.

Source: Compiled from data of the textile Economics Bureau, Inc.

TABLE 5.—APPAREL: U.S. IMPORTS AND DOMESTIC PRODUCTION

[Valued in U.S. prices; in millions of 1957–59 dollars]

Year	Imports	Domestic production	Imports as percent of	
			Production	Consumption [1]
1974	4,508.8	16,284.2	27.7	21.7
1975	5,490.2	16,234.3	33.8	25.3
1976	6,877.8	17,037.7	40.4	28.8
1977	7,237.1	16,994.7	42.6	29.9
1978	9,288.8	18,096.3	51.3	33.9
1979	9,028.3	18,698.7	48.3	32.6
1980	9,852.2	18,852.6	52.3	34.3
1981	11,544.9	18,935.8	61.0	37.9
1982	13,134.5	18,301.4	71.8	41.8
1983 [2]	13,865.3	18,887.1	73.4	42.3
1984 [3]	19,367.0	19,486.7	99.4	49.8

[1] Imports plus production.
[2] Preliminary.
[3] Projected.

Source: I.L.G.W.U. Research Department based on data of the U.S. Bureau of the Census, U.S. Department of Agriculture, U.S. Bureau of Labor Statistics, and Textile Economic Bureau.

TABLE 6.—APPAREL AND TEXTILE MILL PRODUCTS, U.S. IMPORTS FOR CONSUMPTION

[Customs values, in thousands of dollars]

Commodity/country	1980	1981	1982	1983	1984
Textile mill products SIC 22:					
Japan	316,466	446,604	456,808	494,174	568,123
Italy	189,883	240,928	211,459	227,768	379,982
Korea, South	98,972	143,127	154,036	210,032	259,555
China	108,173	175,563	153,933	175,213	255,277
Taiwan	52,018	79,463	85,924	121,243	179,812
India	181,896	155,641	110,753	113,866	159,352
United Kingdom	115,199	121,532	109,893	109,570	152,900
Hong Kong	87,696	121,842	85,442	117,943	134,605
Brazil	73,040	73,633	64,281	86,829	115,235
France	79,849	73,072	73,824	81,515	111,126
Canada	41,609	49,970	55,730	68,006	104,347
Germany, West	49,783	59,512	54,484	70,506	97,179
Belgium and Luxembourg	60,193	54,670	46,652	58,132	95,126
Bangladesh	78,243	70,053	49,839	62,297	73,439
Pakistan	55,009	65,551	40,398	51,188	72,116
Thailand	15,000	30,666	36,146	30,358	54,136
Mexico	45,363	58,700	43,481	48,917	51,696
Australia	24,221	39,914	27,179	33,324	47,415
Switzerland	31,460	31,968	32,724	33,523	45,695
Indonesia	739	3,007	2,236	11,458	42,524
All other	329,367	370,497	305,886	318,408	469,171
All countries	2,034,180	2,465,914	2,201,108	2,524,270	3,468,810
Apparel and other textile products:					
Hong Kong	1,673,905	1,907,219	2,033,158	2,294,042	3,012,225
Taiwan	1,263,717	1,383,247	1,568,973	1,820,272	2,331,976
Korea, South	942,498	1,227,180	1,347,674	1,570,686	2,185,808
China	282,075	456,948	671,633	808,499	1,005,189
Italy	174,724	182,108	203,389	263,612	545,109
Japan	204,939	287,572	283,538	355,388	502,621
Philippines	202,178	257,039	252,090	297,926	388,012
India	166,394	201,510	176,017	238,290	304,019
Singapore	135,566	148,593	172,865	191,230	296,480
Mexico	254,756	247,321	176,368	194,226	267,582
Thailand	61,874	76,990	102,598	132,715	232,866

TABLE 6.—APPAREL AND TEXTILE MILL PRODUCTS, U.S. IMPORTS FOR CONSUMPTION—Continued

[Customs values, in thousands of dollars]

Commodity/country	1980	1981	1982	1983	1984
Macao	98,662	123,700	130,365	157,893	214,500
Sri Lanka (Ceylon)	62,108	85,551	102,121	126,872	203,535
Dominican Republic	91,054	112,811	126,208	145,493	185,924
Canada	62,472	80,932	100,051	118,950	177,186
France	114,684	97,285	96,854	109,115	175,467
Indonesia	6,855	35,223	63,292	74,088	170,939
United Kingdom	73,069	69,882	75,891	98,791	164,746
Malaysia	34,403	44,181	60,608	79,331	142,268
Brazil	23,796	31,815	32,350	45,486	126,620
All other	562,593	633,943	654,432	774,613	1,282,933
All countries	6,492,320	7,691,049	8,431,521	9,897,518	13,916,007

Source: Compiled from official statistics of the U.S. Department of Commerce.

TABLE 7.—MFA SIGNATORIES WITH WHICH THE UNITED STATES HAS BILATERAL AGREEMENTS (AS OF SEPTEMBER 1984)

	Expiration date
A. With specific restraints:	
Brazil	Mar. 31, 1985.
China	Dec. 31, 1987.
Colombia	June 30, 1986.
Haiti	Dec. 31, 1986.
Hong Kong	Dec. 31, 1987.
Hungary	Dec. 31, 1986.
India	Do.
Indonesia	June 30, 1985.
Japan	Dec. 31, 1985.
Korea	Dec. 31, 1987.
Macau	Dec. 31, 1988.
Malaysia	Dec. 31, 1984.
Maldives (in process of renegotiation)	Sept. 28, 1984.
Mexico	Dec. 31, 1985.
Pakistan	Dec. 31, 1986.
Philippines	Dec. 31, 1986.
Poland (in process of renegotiation)	Dec. 31, 1984.
Romania (cotton)	Dec. 31, 1987.
Romania (wool and man-made fiber) will be renegotiated to end Dec. 31, 1987	Dec. 31, 1984.
Singapore	Dec. 31, 1985.
Sri Lanka	May 31, 1988.
Thailand	Dec. 31, 1987.
Uruguay	July 31, 1986.
Yugoslavia	Dec. 31, 1985.
Egypt	None.
Dominican Republic	May 31, 1988.
B. Without specific restraints:	
Jamaica	None.
MFA nonsignatories with which the United States has bilateral agreements	
With specific restraints:	
Mauritius	Sept. 30, 1985.
Costa Rica	Dec. 31, 1988.
Taiwan	Dec. 31, 1987.

TABLE 8.—APPAREL AND TEXTILE MILL PRODUCTS: U.S. PRODUCERS' SHIPMENTS, EXPORTS, GENERAL IMPORTS, AND APPARENT CONSUMPTION, 1974—2D QUARTER 1985

[In millions of dollars]

Year	Producers' shipments	Exports	Imports	Apparent consumption	Ratio (percent) of imports to consumption
	Apparel (SIC 23) [1]				
1974	30,632	593	2,465	32,504	7.6
1975	31,430	603	2,775	33,602	8.3
1976	34,759	740	3,912	37,931	10.3
1977	40,245	859	4,393	47,779	10.0
1978	42,742	1,035	5,722	47,429	12.1
1979	43,030	1,387	5,902	47,545	12.4
1980	45,782	1,604	6,543	50,721	12.9
1981	49,823	1,628	7,750	55,945	13.9
1982	49,830	1,236	8,432	57,026	14.8
1983	55,179	1,049	9,897	64,024	15.5
1984	54,933	1,056	14,000	62,834	20.6
1985 1st Quarter	13,368	233	3,712	16,847	22.0
1985 2d Quarter	13,471	265	3,512	16,718	21.0
	Textile mill products (SIC 22) [2]				
1974	32,789	1,284	1,407	32,912	4.3
1975	31,064	1,157	1,107	31,014	3.6
1976	36,389	1,399	1,392	36,382	3.8
1977	40,550	1,345	1,489	40,694	3.7
1978	42,281	1,466	1,855	42,670	4.3
1979	45,053	2,130	1,834	44,757	4.1
1980	47,160	2,488	2,034	46,706	4.4
1981	50,120	2,326	2,482	50,276	4.9
1982	47,217	1,766	2,225	47,676	4.7
1983	52,203	1,560	2,557	53,200	4.9
1984	55,054	1,541	3,519	57,032	6.4
1985 1st Quarter	12,791	351	667	13,327	6.7
1985 2d Quarter	12,834	385	908	13,357	6.8

[1] Apparel as reported in SIC 23 includes home furnishings other than floor coverings, and some miscellaneous fabricated textile products.

[2] Textile mill products as reported in SIC 22 includes some underwear, hosiery, sweaters, and other garments wholly manufactured in knitting mills.

Source: Compiled from official statistics of the U.S. Department of Commerce.

STATEMENT OF SENATOR GEORGE J. MITCHELL

This nation is now engaged in a great debate over trade policy and the appropriate response to take to our very serious trade problems.

We have before this committee a bill that seeks to respond to one aspect of this problem by enforcing the Multi-Fiber Arrangement which controls the growth of textile and apparel imports. The Administration has expressed strong opposition to this and other legislation which seeks to respond to our deteriorating trade position. Unfortunately, it has so far failed to offer any meaningful alternative trade policy.

The White House has just recently turned down the recommendation of the International trade Commission to limit the surge of shoe imports. It blindly repeats that free trade is our salvation and there is no alternative to sitting passively by as more and more American industries are crippled under a flood of imports.

In recent days we have heard pronouncements from the White House that it is preparing a trade package but we all have to be a little skeptical that this will amount to little more than a smokescreen. For the fact is, that the Administration already has the tools available to respond to our trade problems. If it aggressively enforced the existing Multi-Fiber Arrangement there would be less of a need for this legislation. If the Administration aggressively enforced our unfair trade laws we would not have the trade deficit we have today.

At the July 15 hearing before this subcommittee, the President's trade representative told us that this legislation is not the solution. What is needed, he said, is an aggressive posture to open more foreign markets to U.S. goods. That makes good sense but we have seen absolutely no response from the Administration to respond to the unfair trade practices of other nations.

I have here two volumes which document the extent that other nations protect and subsidize their domestic textile/apparel industries. One volume prepared by the Department of Commerce takes 249 pages to go through all of the restrictions to import of U.S. textiles. You would think the Administration could make good use of this. The other volume was just recently prepared by a Washington law firm for the Fiber, Fabric and Apparel Coalition for Trade. It examines in detail the subsidies and market barriers that almost every nation in the world uses to protect its textile and apparel industries.

While we wring our hands in this nation over legislation to enforce existing agreements controlling textile/apparel trade, every other nation pursues protectionist policies that harm U.S. industries. It is particularly interesting that the nations that are screaming the loudest about this legislation have the most protectionist policies. They threaten retaliation even while adopting more subsidies for their industry and more barriers to imports.

I have here two articles which appeared in the Journal of Commerce on July 16. One article discusses threats made by foreign governments to take action against U.S. import restrictions on textiles and shoes. It says "the government of China in a letter to U.S. Trade Representative Clayton Yeutter, meanwhile condemned efforts in Congress to impose tighter curbs on textile and apparel imports." On the same day, in the same paper, there is an article entitled "Chinese Effect New Import Taxes". On top of what I am told is a 200% tariff the Chinese have imposed an additional 40%. According to the article, the new import taxes apply to, among other products, processed polyester yarn and synthetic fabrics.

Please note what is occurring here. The same day the Chinese government threatens the USTR over this proposed textile/apparel legislation, it imposes new import taxes on U.S. textiles and fiber products.

That, however, is only a small part of the picture.

Korea is one of the largest exporters of textile, apparel and footwear products into the U.S. What kind of policies does it have toward U.S. imports. Well, according to the Department of Commerce, Korea imposes four different types of import taxes including a national defense surtax, a value added tax, a special consumption tax, and a special charge. Then it requires a prior import guarantee deposit. That is a lot of taxes on imports but it doesn't make much difference because non-tariff restrictions effectively prevent the import of any textile and apparel goods.

Note that if a U.S. textile company wants to export product to Korea it has to get the approval of the Korean textile association. And the U.S. product can be kept out simply if it is producible in Korea. I am sure the U.S. textile industry would love to be in a position of approving all import licences on textile products.

Another leading importer of textile and apparel products into the U.S. is Taiwan. It has similar controls on textile imports through a licensing system. Furthermore, it imposes ad valorem duties that average 51%.

U.S. textile and apparel companies should not even consider exporting to Brazil. It imposes 5 different import taxes in addition to temporary tariff rates ranging up to 205%. Most goods may simply not be imported at all if similar goods are manufactured in Brazil. But in the event that there is a U.S. product that slips through the maze of import restrictions, Brazil imposes a special tariff on U.S. textiles and garments at a rate that is 100% above the rates assessed for all other countries.

I could go on and on, page after page of import restrictions, many targeted specifically against U.S. goods. This is all documented by the Commerce Department yet no action is being taken by the administration to respond to these unfair trade practices.

Restrictions on imports only tell half the story. Our major trade competitors in textile and apparel products heavily subsidize their exports. According to Alan Wolff, "global textile and apparel trade is tightly managed by virtually all foreign governments." Many lesser developed countries have designated textiles and apparel as "export strategy" industries entitled to financial incentives and export subsidies.

Europe and Japan have responded to these policies by adopting tough restrictions on textile and apparel imports. The result has been that U.S. imports have accounted for almost all the growth in world textile and apparel trade.

U.S. per capita imports of clothing from the lesser developed countries has doubled since 1980; the European Community level has declined and imports by Japan have increased only slightly. As of 1984, U.S. per capita imports of clothing from the developing nations was five times the level of imports by Japan and three times the per capital level of imports by Europe.

The only conclusion to draw is that we in the United States are a bunch of suckers. Our competitors heavily subsidize and protect their textile and apparel industries. Meanwhile we wring our hands for months over legislation designed simply to enforce existing trade agreements governing textile and apparel trade.

[The articles referred to follow:]

THE JOURNAL OF COMMERCE
TUESDAY, JULY 16, 1985

US Warned on Imposing Textile, Footwear Curbs

By RICHARD LAWRENCE
Journal of Commerce Staff

WASHINGTON — Foreign governments are warning the Reagan administration against imposing new curbs on imports of textiles and shoes.

The 10-nation European Community, in a note to the State Department, said that new U.S. restrictions on footwear would be "unjustified." They would damage prospects for a new multilateral trade round, the EC said.

The EC also cautioned that if the United States, as the International Trade Commission recently recommended, applied import quotas on footwear, the United States might face trade reprisals from abroad.

President Reagan is due to decide by early September whether to act on the ITC quota recommendation. Italy, an EC member country, is a major shoe exporter.

The government of China, in a letter to U.S. Trade Representative Clayton Yeutter, meanwhile condemned efforts in Congress to impose tighter curbs on textile and apparel imports.

The pending legislation, which is sponsored by 53 senators and 290 House members, would cost China over $500 million a year in dollar earnings, said Chinese ambassador Han Xu.

Not only would the legislation violate U.S. international obligations, it would force China to cut back sharply on its U.S. purchases, he warned.

Jack Sheinken, secretary-treasurer of the Amalgamated Clothing and Textile Workers union, urged that Congress pass the bill.

KOREA, REPUBLIC OF

REMARKS

Since July 25, 1967, Korea has had an import plan based on a negative list (Restricted List) of items whos import license must be approved by the appropriate ministry or trade associations. Within the Restricted List, certain items are specifically banned. Others are "subject to regulations to be announced separately". Essentially this involves a further set of implementation orders (not all have been issued yet, which, in effect, places a de-facto ban on imports) in which the MCI gives further details on eligibility or delegates approval authority to manufacturers associations. The manufacturers association certifies that a given import license application involves a product or products not produced or producible locally.

THE JOURNAL OF COMMERCE, Tuesday, July 16, 1985

Chinese Effect New Import Taxes

By P.T. BANGSBERG
Journal of Commerce Special

HONG KONG — China imposed new import taxes in an effort to curb what officials call "blind" purchasing and to conserve foreign reserves.

A circular from the State Council, the day-to-day governing body, did not state the amount of the levy.

It applies to cars, motorcycles, mini-buses and off-road vehicles, video cassette recorders, large-screen color television projection sets, mini-computers and peripherals, processed polyester yarn, synthetic chemical fabrics and other, unspecified items.

The new taxes, which took effect Monday, also apply in the four special economic zones and Hainan Island, another developing area, the circular said. The SEZs were created especially to attract foreign investment with a variety of tax and other incentives and a relaxation of bureaucratic controls.

The circular said the taxes were being imposed because "some localities and units had imported in a blind way commodities with big price differentials. This had an unfavorable impact on domestic economic development."

The new levies are in addition to existing customs and other imposts and are likely to rankle with foreign investors.

Some overseas companies already complain about the lack of access to the domestic market — which they thought they had been promised — and about the high cost of doing business, particularly accommodation in major cities.

China's foreign reserves have dwindled due to the buying spree, especially of consumer goods. Figures published last week showed a 30 percent fall to $11.3 billion in the six months to March 31, from $16.3 billion. Overseas debt rose in the same period from $3.7 billion to $3.9 billion, according to the People's Bank of China, the central bank.

Hu Yaobang, head of the communist party, told a pro-Peking newspaper in Hong Kong last week that China would slow the pace of its economic growth over the next five years "to concentrate on efficiency and management."

In a meeting in Peking on Monday with the visiting prime minister of Trinidad and Tabago, George Michael Chambers, Supreme Leader Deng Xiaoping nevertheless expressed confidence that China's economic reforms would be successful.

The reforms and the policy of opening to the outside world were an important test, he said. "We must pass this test. If we do not persevere, it will be impossible for us to attain our strategic objective of economic development," he said.

Mr. Deng, who has spearheaded the reforms, said there would be "twists and turns and even mistakes of various degrees," but that China would correct them.

He went out of his way to reiterate that the "experiment" with special economic zones was correct, though there were problems to be solved on imports of foreign technology and earning of foreign exchange through exports.

Diplomatic sources in Peking, however, say China plans to curtail the number of coastal cities open to foreign investment because of problems with their development.

STATEMENT OF SENATOR DAVID PRYOR

Mr. Chairman, I want to thank you for the opportunity to participate in this hearing. Although I am not a member of the Trade Subcommittee, I have many concerns about this country's trade posture, so it is helpful for me to join today with you in a discussion of this important issue.

Fear is pervasive across this land in the manufacturing sector of our economy. As I traveled across the State of Arkansas during the recent congressional recess, and as I spoke with Arkansans about our trade problems, I felt the grip of this fear. Where will these displaced textile, apparel and shoe workers go? What will they do? How will they feed their families or enjoy a decent quality of life? As I pondered these questions I realized that in America they cannot be answered simply by macro-economic theory, as the Administration might prefer, but must involve a certain amount of care and concern for the welfare of our fellow citizens.

Like most of my colleagues, I've grown tired and frustrated with the Administration's failure to adopt any meaningful trade policy. I've often stated that we currently have "no" trade policy. As an example, the President recently turned his backs on the shoe workers and their families by rejecting the International Trade Commission's recommendation that he implement global quotas for footwear. I remain committed to securing import trade relief through legislation for this critical industry.

Mr. Chairman, like the shoe industry, the textile and apparel industry in Arkansas is reeling. In 1984, nine plants closed their doors throwing over 3000 people out of work. In 1985, three plants have closed and 734 more Arkansans found themselves without employment. The prospects for the future are even more grave unless S. 680, the Textile and Apparel Trade Enforcement Act, or similar legislation becomes law.

The Administration opposes S. 680. It attacks it relentlessly as protectionist, and says it invites retaliation. But, the Administration has failed to enforce the Multi Fiber Agreement (MFA), which supposedly governs our bilateral trade in textiles and apparel. This isn't the only instance where existing trade laws have been ignored. As I understand it, S. 680 simply insists on the enforcement of the MFA, so that orderliness can be restored and that growth in import levels can be reasonable rather than staggering. Enactment of this measure would help not only the apparel workers and their families, but also Arkansas cotton producers who've seen markets disappear due to a flood of apparel imports.

Mr. Chairman, I noticed in this morning's paper that the President has now decided, after thousands of jobs have been lost, that it is time now to write new trade law. If this trade law offers hope to textile, apparel and shoe workers in the State of Arkansas, then I will be quick to lend it my support. However, if it is more of the same, then I will continue to advocate that Congress go its own way and adopt substantive import relief for these struggling industries.

Again, thank you, Mr. Chairman for this opportunity. I thank you for your leadership in this critical area.

Senator **DANFORTH**. We have an exceptionally long list of witnesses this afternoon and a great deal of interest in this hearing. This is the second day of what will, I think, be 3 days of hearings on the textile bill. And because of the long list of witnesses, the staff originally gave you 5 minutes and tried to contact as many of you as possible and ask you if it would be possible to make your statement in 3 minutes.

I want to assure everybody that, without even asking permission, your written statements will be included in the record as though presented in full. They will be read and they will be analyzed; so a short statement of the gist of your message would be very much appreciated.

I want to say just a few words at the outset, because things have changed since the last time we had a meeting on the textile bill, due to the President's announcement of no relief for the shoe industry in the 201 case that the shoe industry brought.

Ladies and gentlemen, I don't like what we are doing here. I don't like the idea of Congress taking over the business of managing trade policy. I think that it is a mistake.

I don't think that there is any substitute for a trade policy which is managed from the White House. Now, the President has a trade policy—some people say that he doesn't. He does. It is a very free trade policy, and I respect that. But what is at stake is some semblance of an international trading system which is maintained in a law or a system of law which, to use a sports term, is able to bend but not break. That, to me, is the nature of the international trading system; it is a flexible system. It is a system which accommodates a great deal of pressure. It is a system which is able to deflect pressure into useful channels. That is the way the international trading system is supposed to work.

When people bring cases under section 201 of the Trade Act, they should have some reasonable chance of getting relief. The system should accommodate emergencies; the system should accommodate undue dislocation and provide, under a legal structure, the ability to provide some relief for American industries for a limited period of time, provided that compensation is paid as required under the General Agreement on Tariffs and Trade. That is the way the system is supposed to work.

When the system is not allowed to work, when section 201 relief is no longer available to affected industries, the result is that all of the action shifts from the legal structure to the Congress. Existing remedies are abandoned. Existing remedies are viewed as being of little or no use. And there is increasing pressure on Congress to take trade into its own hands on a sector-by-sector basis, and that is exactly what we are seeing in this country right now.

I had resisted supporting the shoe quota bill, and I had told the shoe people that they should proceed under section 201 and see if they could utilize the system to help themselves, and that is what they did. And in effect they were told, after years of effort, that they were suckers.

If section 201 is not applicable to provide relief to the shoe industry, it is not applicable to any industry at all; it's a dead-end street.

So, there is now pressure for us to pass a shoe quota bill. I had hoped to resist support for a textile bill. I had hoped to do so by pointing the textile people to existing remedies and to the forthcoming renegotiation of the Multifiber Arrangement, to utilize existing structures and existing systems rather than to use purely political pressure coming to Congress asking for relief.

However, if the administration cannot provide some hope for management of difficult situations within the administration, then the result is what we see today, with large groups of people waiting outside the hearing room to get in to appeal to Congress for special legislation. And that's what this is.

Well, hope springs eternal. We had a good meeting at the White House yesterday. And I do have hope that somehow we can reach an accommodation so that control of this situation can be assumed again by the administration and not by Congress.

I do not relish a situation when I get letters that have as a salutation, "Dear Senator Smoot." I don't relish that role as a heavy.

And my hope is still that we can work out a situation so that this press for quota legislation doesn't get totally out of hand.

We are happy to have three Senators with us today, Senator Specter, Senator Evans, and Senator Gorton.

Gentlemen, I don't know who would like to proceed first.

Arlen. Glad you are here.

STATEMENT OF HON. ARLEN SPECTER, U.S. SENATOR FROM THE STATE OF PENNSYLVANIA

Senator SPECTER. Thank you very much, Mr. Chairman.

I commend your leadership, Senator Danforth, on so many issues, and I thank you for the opportunity to testify today. I shall be as brief as possible and will summarize the statement which will be made a part of the record.

I appear to testify in support of legislation which I had pending in the 97th and 98th Congresses, and have pending in the 99th Congress—legislation I discussed with the chairman in the past. Essentially stated, this legislation would enforce existing trade laws by allowing the Federal courts to have jurisdiction to grant injunctions to stop goods from coming into the United States which are subsidized, dumped, violate customs laws, or otherwise are in violation of existing law.

I suggest to you, Mr. Chairman, that this bill is targeted to meet many of the circumstances which you have raised in your opening statement.

It is not protectionist, because it does not establish any new quota or any new substantive limitation on imports. The facts show that millions of Americans have lost jobs because of the failure to enforce existing trade laws. It is now against the law of the United States to import subsidized goods. It is now against the law of the United States to import dumped goods. It is now against the law of the United States to import apparels and textiles in violation of the Multifiber Agreement. But the fact is that existing laws are not enforced, for a variety of reasons.

The recommendation of the ITC on shoes was changed by the executive branch. Exactly 1 year ago the recommendation of the ITC to limit steel imports was reversed by the executive branch. For too long American industry has been sacrificed on the altar of foreign policy. It is time, in my judgment, that the laws be enforced—and they can be enforced if an additional remedy were to be supplied so that the courts would have the power to issue injunctive relief.

A similar situation exists regarding the Multifiber Agreement. That law is being violated when importers, for example, having used their allocation from Taiwan, circumvent the law by sending the goods through New Zealand; or, where there is a minor change in the fiber content, and the importers avoid the intent of the law; or, where there is fraudulent mislabeling.

Stated simply, the Customs authorities in this country have insufficient resources to do the job.

My bill would authorize private injured parties—companies, unions, anyone who is injured—to take their case to court. I suggest that the judicial remedy would be very effective. Private actions have been very effective to enforce the antitrust laws in this country. It is possible for Federal courts to decide complex, factual, and legal situations in a relatively brief period of time. Illustrative of that is the case of *Marathon* v. *Mobil Oil*, which was decided in 6 weeks with a very complex, factual and legal situation.

The bill which I have proposed would vest jurisdiction in the district court in the District of Columbia analogous to the Voting Rights Act, so you would not have, for example, a textile case in a South Carolina court perhaps raising any issue of bias in favor of the textile industry.

The bill also allows intervention by the President in extraordinary import cases.

Mr. Chairman, I would suggest that this legislation is a good medium ground to avoid a trade war on protectionism and yet to provide a very realistic remedy.

My State, Pennsylvania, is a microcosm of the Nation. We are among the five major shoe-producing States; we are second in textiles and apparel; we are the leading steel producing State. Pennsylvania is in deplorable shape. In the Mon Valley, our unemployment rate is 35 percent. The same in Alliquippa. In the textile and shoe areas of the State, unemployment is in the 20-percent range.

One brief word in conclusion, Mr. Chairman, about my efforts to build a coalition within the Congress.

Senator Dole, as of yesterday, has stated his support of this legislation. I had an opportunity to discuss the matter briefly with the President, who was favorably disposed. Although the President did not make a final commitment, he did say that he was in favor of enforcing existing laws. The matter has been discussed with other department heads and interested parties, including Treasury Secretary Baker, former Treasury Secretary, now Chief of Staff Don Regan, Bill Brock, Clayton Yeutter, and Malcolm Baldrige. I welcome this opportunity to further comment upon this legislation. Senator Dole has also assured me of an opportunity to bring the bill to the floor at an early time. I very earnestly solicit the support of this very distinguished subcommittee for this legislation.

Thank you.

Senator **Danforth**. Senator Specter, thank you very much for your testimony.

[Senator Specter's written testimony follows:]

STATEMENT OF SENATOR ARLEN SPECTER

Mr. Chairman, I will soon introduce legislation to expand even further the ambit of S. 236, the "Unfair Foreign Competition Act of 1985." When Senators Heinz, Byrd, Kennedy and others joined me in introducing S. 236 earlier this session, we sought to give American industries direct access to federal courts to promptly halt the injurious import of dumped and subsidized products, and to deter future dumping and subsidy.

My new bill will make several improvements upon S. 236 to accommodate concerns which have been voiced about venue, standing, and preferred remedies. More significantly, the bill will now extend the central component of S. 236's approach—a private right of action and the availability of swift injunctive relief—to include not only dumping and subsidy but to Customs fraud as well.

I have discussed this bill with President Reagan, and can report that he is very interested in it as a non-protectionist means of responding to our trade crisis. Given the President's favorable attitude toward vigorous enforcement of existing trade laws—which is the very heart of my bill—I think it is safe to say that this bill would not face the Presidential veto that the President has virtually promised to exercise in the event Congress passes a protectionist bill. That is the beauty and the practicality of this bill: tangible, significant, and effective relief for the hardest hit American industries, by virtue of vigorous private enforcement in federal court, not resort to protectionism.

The evidence is plain that enormous quantities of dumped and subsidized products, and goods which violate the Customs laws, are entering this country every year. Equally clear is that the current laws prohibiting such imports are—for various reasons—not being effectively enforced.

Illegal dumping, subsidy, and Customs fraud have cost hundreds of thousands of Americans their jobs in recent years. Yet present laws prohibiting dumping, subsidy, and Customs fraud have been little if any help to the critically injured American industries. Proceedings brought before the International Trade Commission typically consume months or even years, by which time dumpers have captured new markets and gathered huge ill-gotten profits. Indeed, even when the ITC last year recommended that new tariffs and quotas be imposed on foreign steel because of clear evidence of widespread dumping, the President rejected the recommendation in favor of voluntary restraints.

By the government's own admission, Customs fraud is rampant with regard to textiles, apparel, computer software, hand tools, sugar, electronics, automotive products, chemicals, petrochemicals, agricultural products, pharmaceutical products, and other industries. Illegal dumping is severely injuring American steel, chemical, glass, textile, electronics, agriculture, rubber, and cement industries, among others. Foreign subsidies injure American manufacturers of footware, steel, textiles, apparel, glass, wool, leather, tires, cement, sugar, iron, railway cars and other products.

The bill I will soon introduce would in no way interfere with the Administration's pursuit of voluntary import restraints. It would offer no new tariffs or quotas or protectionist barriers. Rather, it would reduce the pressures for resort to such disfavored measures, by allowing vigorous enforcement of laws already on the books.

Mr. Chairman, there is nothing like the vigor of private plaintiffs when it comes to enforcement of trade laws. We have many decades of evidence of this with regard to private enforcement of our antitrust laws. The theory that private plaintiffs would find strong incentive to bring such antitrust suits—and in so doing would both recoup deserved compensation for their injuries and advance strong national public policy interests—certainly has proved correct. There is no reason that the same would not be true of private suits to enforce our international trade laws.

As noted, the bill broadens the approach of S. 236 in an extremely important way, by providing for private suits to enforce not only the existing dumping and subsidy laws but the Customs laws as well. Violations of the Customs law are flagrant, widespread, and extremely debilitating to some of our most basic domestic industries: textiles, apparel, footware, and many others.

Customs violations are rampant in several pernicious forms. Massive "country of origin" fraud occurs, whereby a country which has reached its permissible quota for a given item or product circumvents the quota by trans-shipping the continued imports through another country which has not yet reached its quota. Most commonly—indeed, in hundreds of thousands of cases—imports are fraudulently mislabelled. Given the sheer volume of imports and the limited resources of the Customs Service, many imported textiles, apparel and footware simply are declared to be something which they are not, or are immensely underdisclosed in number—again, in order to evade quotas fixed by the Administration.

Domestic textile, apparel and footware manufactures and their employees pay a very heavy toll for these illegal imports. Beyond the individual injury, our national goals and policies are thwarted. In my state alone, more than 15,000 textile jobs were lost in the last year.

Mr. Chairman, we should not be surprised by recent protectionist calls for new tariffs against goods from countries with large trade surpluses with the U.S. I sympathize with the frustrations which lead to such efforts, even as I question their appropriateness. The way to avert such counter-productive measures is to enforce the trade laws which already are in place. My bill will greatly increase the enforcement of those laws, by letting injured American businesses go directly to federal court—just as they can for violations of the antitrust laws—and seek quick injunctions against continued illegal importation.

We desperately need the vigorous private enforcement this bill would spur if we are to successfully chart a course between the grave dangers of increased protectionism and the certain peril which would result from unabated illegal foreign imports.

Senator DANFORTH. Do you all want to testify one at a time and then answer any questions? Your testimony was on really a different topic?

Senator SPECTER. Mr. Chairman, I would like to be excused at the earliest moment because of other commitments. If you have a question, I would prefer to take it now, if I may.

Senator DANFORTH. OK.

Well, I very much appreciate your testimony. You and I have discussed your idea before, and I think you have offered it as an amendment to bills on the floor before. I have expressed to you some of my concerns.

My view is that the judicial system tends to be even more of a bog than the administrative system, and that perhaps some parties complaining of unfair trade practices would not like to subject themselves to the discovery rules. Those are just two concerns that pop into my mind.

Senator SPECTER. Well, if I may make a very brief comment, my remedy is an additional one. If plaintiffs do not wish to subject themselves to the discovery rules, they don't have to use the remedy; they can proceed under currently existing remedies.

The discovery rules would offer a party an opportunity to get the facts from the other side. I believe if the Japanese want to sell steel here or the Brazilians want to sell steel here, they ought to be subjected to the jurisdiction of our courts and ought to answer questions as litigants do when they want to take advantage of our trade opportunities.

Speed also is present when an injunction is issued; it can be issued promptly and it stays in effect, even during lengthy appellate procedures, unless someone posts a bond and obtains a supersedeas. Obtaining supersedeas, however, is not realistic considering the large dollar amounts at issue. Thus, a decision would remain in effect until overturned. An injunction would stand. It would be very fast.

I close by saying that blacks and women didn't get justice in this country until they could take their cases away from the legislative branch and the executive branch, where we are all influenced by so many political considerations, and take their cases to the courts.

If a judge is sitting with life tenure, especially in the District of Columbia, he or she is in a position to administer the laws in a fair way. We have seen such objectivity injected into the Voting Rights Act. It is high time.

Senator DANFORTH. Any questions for Senator Specter? Senator Baucus, Senator Grassley?

Senator GRASSLEY. I have no questions.

Senator BAUCUS. No questions.

Senator DANFORTH. Senator Specter, thank you very much for your testimony.

Senator SPECTER. Thank you very much.

Senator DANFORTH. Senator Gorton, would you like to proceed next? Or Senator Evans?

Senator GORTON. I will, if I may, Mr. Chairman.

STATEMENT OF HON. SLADE GORTON, U.S. SENATOR FROM THE STATE OF WASHINGTON

Senator GORTON. I want to start by thanking you, Senator Grassley and Senator Baucus, for giving this opportunity to the two of us from the State of Washington to speak to you here today.

America's international trade crisis is a real crisis: Hundreds of thousands of jobs depend on exports and imports in this country, yet the balance of trade is painfully lopsided. As a nation, our imports will exceed our exports by close to $150 billion this year. One of the biggest threats created by this imbalance, however, is that in our attempt to correct it we will tip the scales too far in the direction of dangerous protectionism.

American clothing and textile manufacturers have legitimate concerns. Those concerns, however, are no different from those of many other industries which find themselves besieged by unprecedented competition from imports. For a Senator from the State of Washington, of course, the first one that comes to mind is the wood products industry. Over the past 10 years, the Canadian market share in lumber has nearly doubled, from 18.7 percent in 1975 to roughly 31 percent last year. Tens of thousands of people have lost their jobs, in large part because of this wave of imports. Is it a lesser tragedy when a lumber mill worker's job is lost than when a textile worker's is? Although I continue to oppose unfair import quotas under any circumstances, I must ask myself how Congress can justify imposing heavy restrictions in one area but not in others which are equally impacted by imports.

I must also ask what sense it makes to pass legislation to protect workers in one sector, textiles, while endangering workers in such exporting industries as wheat, wood products, and aircraft. There is little question but that these industries will be the targets of harmful retaliation if this bill is passed.

The bill makes even less sense when the harm to exporters is compounded by the harm to consumers, estimated at $14 billion a year.

In addition to this indirect damage, the bill also inflicts direct harm in certain instances. For example, the legislation is drafted so broadly that it inadvertently covers products such as toys, which have never been considered textiles in the past. This oversight could wipe out more than 500 jobs in Seattle. Hasbro Industries brings all of its toys and stuffed animals into the United States through Seattle. More than 350 people are directly employed in packaging and repackaging those toys there. Others are employed in the production of packaging materials and in printing.

It is worth noting, I believe, that Hasbro's employment in the United States has tripled since it began manufacturing overseas. It has enabled that company to grow and to enter new markets, creating new jobs here in the United States.

On top of those jobs, 1,300 jobs at the Port of Seattle are directly related to textile imports. Hundreds of these will be lost if this bill becomes law.

All of these industries share a common problem in remaining internationally competitive—the strong dollar. Over the course of the past several months, my highest priority has been to help fashion a budget that would make significant progress toward reducing our destructive deficit, and in turn to bring down the value of the dollar. It will come as no surprise that I was terribly disappointed with the budget finally adopted, and I remain firmly convinced that when we do develop the self-discipline and foresight to adopt a responsible budget, we will truly aid our industries in becoming more competitive in the international marketplace.

I would like to note that the American textile industry is not alone in its battle against inexpensive imports. Rather, it is experiencing the same market shifts as have other developed countries around the world. Canada, for example, has experienced the same kind of growth as we have.

I want to agree with you, Mr. Chairman, in stating that the best source for a solution to these trade problems is not the Congress of the United States but the President of the United States. While we all agree that we are faced with a tremendous imbalance in trade, the true question before us is whether or not the best policy is to balance up by allowing ourselves to develop policies under which we can export more, or to balance down by depriving our consumers of their freedom of choice by restricting imports.

I am convinced that it is far better to balance up in that sense, and that only the President of the United States, using the kinds of powers which he was given by the Danforth bill of last year for the use of reciprocity, is truly able to open up those markets.

I do not believe—and in this I share these views with the chairman of this subcommittee—that the President has acted nearly aggressively enough in opening up those other markets, in solving this problem in a way which will benefit both us and our foreign trading partners. This bill is not the appropriate approach, but we cannot ignore the problem; something must be done. If it is not done by the President, the best source, it almost inevitably will be done by this Congress.

Thank you.

[Senator Gorton's written testimony follows:]

STATEMENT OF SENATOR SLADE GORTON

Mr. Chairman, I want to thank you and Senators Grassley and Baucus for this opportunity to present my views here today.

America's international trade crisis is real—hundreds of thousands of jobs depend on exports and imports in this country, yet the balance of trade is painfully lopsided. As a nation, our imports will exceed our exports by close to $150 billions of dollars this year. One of the biggest threats created by this imbalance, however, is that in our attempt to correct it we will tip the scales too far in the direction of dangerous protectionism.

American clothing and textile manufacturers have legitimate concerns. Their concerns, however, are no different from those of many other industries that find themselves besieged by unprecedented competition from imports. For a Senator from the State of Washington, of course, the first one that comes to mind is the wood products industry. Over the past ten years, the Canadian market share in lumber has nearly doubled, from 18.7 per cent in 1975 to roughly 31 per cent last year. Tens of thousands of people have lost their jobs, in large part because of this wave of imports. Is it a lesser tragedy when a lumber mill worker's job is lost than when a textile worker's is? Although I continue to oppose unfair import quotas under any circumstances, I must ask myself how Congress can justify imposing heavy restrictions in one area, but not in others that are equally impacted by imports.

I must also ask what sense it makes to pass legislation to protect workers in one sector—textiles—while endangering workers in such exporting industries as wheat, wood products, and aircraft. There is little question but that these industries will be the targets of harmful retaliation if this bill is passed. The bill makes even less sense when the harm to exporters is compounded by the harm to consumers, which is estimated at $14 billion annually.

In addition to this indirect damage, the bill also inflicts direct harm in certain instances. For example, the legislation is drafted so broadly that it inadvertently covers products such as toys, which have never been considered textiles in the past.

This oversight could wipe out more than 500 jobs in Seattle. Hasbro Industries brings all of its toys and stuffed animals into the U.S. through Seattle. More than 350 people are directly employed in packaging and repackaging those toys there. Others are employed in production of packaging materials and in printing.

It's also worth noting, I believe, that Hasbro's employment in the U.S. has trippled since it began some manufacturing overseas. It has enabled the company to grow and enter new markets creating new jobs in this country.

On top of these jobs, 1300 jobs at the Port of Seattle are directly related to textile imports. Hundreds of these will be lost if this bill becomes law.

All of these industries share a common problem in remaining internationally competitive—the strong dollar. Over the course of the past several months, my highest priority has been to help fashion a budget that would make significant progress toward reducing our destructive deficit, and in turn, bring down the value of the dollar. It will come as no surprise that I was terribly disappointed with the budget that was finally adopted, and I remain firmly convinced that when we do develop the self-discipline and foresight to adopt a responsible budget, we will truly aid our industries in becoming competitive in the international marketplace.

Finally, I would like to note that the American textile industry is not alone in its battle against inexpensive imports. Rather, it is experiencing the same market shifts as have other developed countries around the world. For example, Canada has experienced growths in imports similar to our own.

Again, I appreciate the opportunity to share my views on this very important issue with the Committee. [I want to make clear that I agree wholeheartedly with Senator Danforth's eloquent statement regarding this problem. The source of trade policy ideally should not be the Congress of the United States, but the President of the United States. The President should use the powers granted him in last year's trade bill (sponsored by Senator Danforth) to vigorously enforce our existing trade laws. Our overall policy should be one of balancing up, not down—by opening foreign markets and expanding our nation's exports, rather than closing our markets off.] [1] Thank you.

Senator DANFORTH. Thank you, Senator Gorton, for your characteristically strong and very lucid presentation.

Senator Evans.

STATEMENT OF HON. DANIEL J. EVANS, U.S. SENATOR FROM THE STATE OF WASHINGTON

Senator EVANS. Thank you, Mr. Chairman.

I certainly associate myself with the remarks of my colleague from Washington and appear also to strongly oppose S. 680. At the last hearing in July, I signaled my intention to appear before this committee, and I appreciate this opportunity, Mr. Chairman.

I would start by just asking the rhetorical question: If present laws are not enforced, which seems to the drive for new laws, what makes us think that new laws will be enforced any more vigorously? It seems to me that the answer is not in new laws and new burdens but in insisting that the current laws are carried out to their fullest. And I think we are well on our way to sending that message to the administration and having an administration's response.

Mr. Chairman, this, by itself, is dreadful legislation. In fact, it is a real sham. Rather than help the American economy, it will cost the American consumer dearly, will burden the Government with additional expenditures, will blatantly discriminate against our Asian trading partners, and in addition it sets a bad precedent by singling out an industry that already is well protected.

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[1] PLEASE NOTE.—The remarks in brackets are not a direct quotation, but rather are a staff paraphrase of the Senator's comments. A verbatim transcript of the testimony will be available from the Finance Committee.

The textile and apparel industry has preferential treatment now. In fact, this bill will likely attract a score of other import-restricted bills as each sponsoring industry sees this bill as a vehicle that may pass.

Mr. Chairman, I have just returned from a trip to East Asia with Majority Leader Dole and five other Members of the Senate, so memories are still fresh of that trip. We visited and talked with the leaders of Korea, Japan, Taiwan, Hong Kong, and China, and the trip served to reinforce my belief that this bill, if passed, will quickly backfire on American interests.

Each of those countries is unique in its export profile, in its dependence on textile and apparel for export earnings, in its level of defense expenditures and the degree to which they are assisting the United States in maintaining its worldwide defense posture, and in its overall political situation.

Japan, by far the biggest country in terms of trade imbalance, won't even be greatly affected by this bill, since it is only about 2 percent of their total export. The anti-Asian sentiment which is clearly behind this bill disturbs and concerns me. Of the 12 countries most affected, 11 are in Asia. And yet in the past year or so the fast growth in textile imports has come from the European Economic Community and from Canada.

Let me just speak briefly to the costs of this bill. My colleague talked about $14 billion per year, but let's translate that into the additional cost of $164 to $330 for the average American household. This translates into an additional cost of living, and the cost-price index. And the cost-price index is going to have a direct effect on governmental expenditures. It is our estimate that the portion of the market basket, which is reflected in the cost-of-living allowances, if increased by this 10 percent would add almost $1 billion a year in direct U.S. Government expenditures for those cost-of-living allowances. Our tariff losses will be close to $800 million a year. Federal procurement of clothing, mostly for the military, will go up from $60 million to $100 million a year, adding a direct cost to this country of $1.8 to $2.8 billion.

Mr. Chairman, the job losses my colleague has responded to. But, put in perspective, the job losses over the last few years in the textile industry are measured at about 9 percent of their total labor force; we, in the Northwest, in the State of Washington alone, have undergone a 29-percent reduction in jobs in the last 8 years in our timber products industry.

Let me just end by speaking briefly of what we might do. I think the members of the committee, Senator Roth and Senator Bradley, have proposed constructive and intelligent proposals to deal with trade adjustment problems. I think we could do more in that respect.

I think, by all odds, the best thing we can do is to utilize our existing laws and institutions effectively. And with regard to textiles, the Multifiber Arrangement is due to be renegotiated in the summer of 1986. And while it isn't perfect, it is an international institution and a proper forum to discuss these detailed, difficult, and unique problems as they are applied to each of our trading partners.

Finally, Mr. Chairman, I think we could do a whole lot better if, instead of spending weeks on the floor of the Senate debating trade legislation, we spent substantial time in the next month on additional attempts for deficit reduction. Rather than further trade protectionism, we would do far more for American industry, American workers, and American families; lower deficits, lower interest rates, a reasonably valued dollar will make much of our production competitive in the world markets. And frankly, Mr. Chairman, rather than admit that we cannot compete, by adding trade barriers, we ought to make ourselves competitive in world markets so we can effectively show that American industry, American workers, and the United States, as a whole, can continue to be effective and can continue to be part of a worldwide trading partnership.

[Senator Evans' written testimony follows:]

STATEMENT OF SENATOR DANIEL J. EVANS

Mr. Chairman, I appear before the subcommittee today to strongly oppose S. 680. At the last hearing in July, I indicated to you my intention to testify at your next hearing, and I appreciate the opportunity afforded by the chairman today.

Mr. Chairman, this is dreadful legislation. In fact, it's a sham. Rather than help the American economy, it will cost the American consumer dearly, will burden the Government with additional expenditures, and blatantly discriminates against our Asian trading partners. In addition, it sets a bad precedent by singling out an industry that is already well protected—the textile and apparel industry—for further preferential treatment. In fact, this bill will likely attract a score of other import-restrictive bills as each sponsoring industry sees this bill as a vehicle that may pass.

The proponents of the bill make dubious assertions about the number of job losses and its direct causation to imports of textile and apparel products. They consciously overlook the impressive gains in productivity that the industry has made over the past decade. They consciously ignore the negative impact that this bill will have on other regions of the country such as the Pacific Northwest. They consciously ignore the impact that the bill will have on low- and fixed-income people who rely on purchases of inexpensive apparel imports. And they downplay the impact of the huge U.S. budget deficit on the U.S. trade deficit, and specifically the decline of their textile and apparel product exports over the past five years.

Mr. Chairman, I have just returned from a trip to East Asia with Majority Leader Dole and five other Members of the Senate, so memories are still fresh. We visited Korea, Japan, Taiwan, Hong Kong, and China. The trip served to reinforce my belief that this bill, if passed, will quickly backfire on U.S. interests. Each of those countries is unique in its export profile, its dependence on textile/apparel for export earnings, its level of defense expenditures, and its overall political situation. Japan, for example, won't be greatly affected by this bill since its textile/apparel exports to the U.S. account for only 2 percent of total exports. The anti-Asian sentiment which is clearly behind this bill disturbs and concerns me. Of the twelve countries most affected by the bill, nine are in East Asia and two are in South Asia. One is in South America. The bill's emphasis on Asia is ironic when one considers the large surges in import growth over the past year have come not from Asia, but from the European Community and Canada.

THE COST TO THE GOVERNMENT

The Council of Economic Advisers has estimated the gross cost to the American consumer to be $14 billion, per year, if S. 680 is adopted. It is estimated that this would result in a price increase of 10 percent or more. Imports will be limited to a very low growth rate of 1 percent per year indefinitely. It is not unrealistic to consider price increases of at least 20 percent. From a pocketbook perspective, price increases of this magnitude will create additional costs of $164 to $328 for the average American household.

Given this increase in the clothing and textile components of the CPI market basket, the Federal Government will be forced to pay higher COLA's to programs indexed to the CPI—most of which serve fixed-income recipients. In addition, the Government will lose the revenue it currently receives from the high tariffs imposed on imported apparel and textile products. We must remember that the average duty on such products is already 22 percent. Finally, we will bear the increased procurement costs for Federal Government apparel and textile goods, a majority of which goes for military clothing. An approximate estimate of those costs are:

[In millions of dollars]

	10 percent increase	20 percent increase
COLA's	$936	$1,872
Tariff losses	795	795
Federal procurement	67	134
Total	1,798	2,801

Furthermore, the Government may incur other substantial responsibilities such as the cost of administering the import licensing system contained in the bill. Commerce Department officials have testified that there are currently 250,000 import entries of textile and apparel products into this country per month, or 3 million per year. Significant costs would be imposed on the Commerce Department to monitor and license such a huge number of entries.

This ain't peanuts, Mr. Chairman. We all know too acutely the painful efforts we made in the Senate to pass a significant deficit reduction package. Despite our modest success, deficit reduction should remain the number one fiscal and trade policy priority on this Congress.

JOB LOSSES AND REGIONAL IMPACT

Proponents of the bill argue that 300,000 jobs have been lost since 1980. This figure is exaggerated. Based on the Department of Commerce statistics, the actual job losses for the 1980-84 period are approximately 168,000. These can be broken down as follows: 102,000 in textile mill and 66,000 in apparel products.

No Government or private economist can ascribe the direct causation of these job losses. But it is undeniable that many of these job losses can be attributed to the increasing productivity in the textile mills. While domestic production has remained relatively constant over the 1980–84 period, the number of workers has been reduced by 12 percent and the number of man-hours (average weekly) has been reduced by 13 percent. Productivity increases have averaged 5.2 percent over the past decade.

Mr. Chairman, many other domestic industries face similar difficult problems of maturity and structural readjustment. In the Pacific Northwest, the forest products and aluminum industries have lost a large number of jobs and are facing stiff international competition today. I am sure that each region of the country can cite an industry that is in difficulty and could appeal to us in Washington, D.C. for import protection.

But what is the justification for singling out one industry or one region of the country for preferential treatment? One especially must ask that question when considering that the textile-apparel industry already receives unusual protection: An average tariff rate of 22 percent, 600 quotas that cover approximately 80 percent of textile/apparel trade, and tighter country-of-origin rules established earlier this year.

Furthermore, unemployment rates in the major textile-producing States are generally lower than the national average, and lower than that of my State. For example, in June 1985, the unemployment figures for a few selected States were: 8.2 percent Washington, 5.5 percent in North Carolina, 6.1 percent in South Carolina, and 7.0 percent in Georgia. While the 168,000 job losses nationwide are certainly substantial, they do represent only 9 percent of the total textile/apparel labor force of approximately 1.94 million. To put this in perspective, the lumber and wood industry in the State of Washington alone has undergone a 29 percent reduction in jobs since 1977—a total of about 16,000 displaced workers.

RELATIONS WITH OUR TRADING PARTNERS

Mr. Chairman, let's make no bones about it—this bill is clearly directed against the major Asian exporters. It throws them all into one category of the "major exporting country" based on the volume of their exports to the United States in 1984. I think this is a serious mistake.

First, each of these countries has a different trade profile and will be affected by this bill differently. The total outstanding foreign debt and debt service ratios of each country are different. Also, Korea and Taiwan confront difficult security dilemmas and have unique ties to the United States. Consequently they are spending a large percentage of their GNP on defense expenditures. Many proponents of S. 680 are sympathetic to these factors. Do we really want to group all of these countries into one category?

Second, many of these countries badly need the export earnings from textile/apparel products in order to purchase other U.S. products and repay their debts. By arbitrarily depriving them of export earnings, we run serious risk of a reduction in overall trade and increased financial exposure on both sides.

Third, we are flirting with the real and serious risk of retaliation against U.S. exports. Let's not kid ourselves that we are the only supplier in the world of various agricultural and manufactured products to these countries. There are usually ample alternative sources of supply for most products. We will really be shooting ourselves in the foot if we pass S. 680 hastily and unilaterally.

Finally, Asia and the Pacific rim represent one of the most dynamic economic areas in the world. This affords unparalleled challenges and opportunities to American companies. China is the best example of opportunity over the longer term. China is poised, economically and politically, to make permanent the economic reforms and open door policy that Deng Xiao-Ping initiated in the late 1970's. I believe that it is in the U.S. interest to strongly support and encourage the present Chinese leadership in that effort. But China needs foreign currency to purchase products from foreign countries, which has become especially evident in the past six months. And textile/apparel exports account for 41 percent of China's 1984 exports to our country. This bill would reduce China's textile imports into the U.S. by 56 percent, depriving its blossoming economy of about $700 million in export earnings. The bill would do this unilaterally without consultation with China. In my view, nothing could be more short-sighted and ill-advised.

SUMMARY

In summary, Mr. Chairman, this is bad legislation that should be defeated soundly. I realize the bill has a large number of cosponsors. But frustration with our large trade deficit and the administration's decisions on trade should not, by themselves, lead members of this body to vote for S. 680. We must recognize that our huge budget deficit, the high value of the dollar, and readjustment to the new international economic environment are elements that confront all domestic industries in this country. We will set a terribly disturbing precedent by singling out one industry for protection, especially when it is already well protected.

What are the alternatives? First, we simply must do a better job in handling the process of adjustment and displaced workers. Several members of this committee—Senators Roth and Bradley, in particular—have proposed constructive and intelligent proposals to deal with trade adjustment problems. I applaud their actions and urge the committee to take prompt action as part of an overall trade policy.

Second, I believe that we should try to use existing laws and institutions as much as possible to resolve our trade disputes. With regard to textiles, the multi-fibre arrangement is due to be renegotiated by the summer of 1986. While not perfect, I believe that an international institution such as the MFA is the proper forum in which to discuss international textile issues. Also, more vigorous enforcement of our existing trade laws on unfair and discriminatory practices of our trading partners is necessary. I am pleased to see the administration recently taking steps in that direction.

Finally, and most importantly, we have to do a better job in reducing our huge budget deficit. In my view, this is the single most important step we can take today to reduce our trade tensions. We should not now endanger our delicate trade relationships, because we earlier fell short of realizing the benefits of substantial deficit reduction.

If we spent substantial time in the next month on additional deficit reduction rather than further trade protectionism, we would do far more for American industry and workers. Lower deficits, lower interest rates, and a reasonably valued dollar will make much of our production competitive in world markets.

Senator **Danforth**. Thank you both very much.

If we pass the textile bill, would you two intend, then, to support a quota bill for lumber? And if not, how do you say no to your constituents if we pass the textile bill?

Senator **Evans**. Well, I don't propose to support either this or probably the other kinds of specific protective legislation that is likely to come before the Senate and, as such, wouldn't propose that we jump on the bandwagon with an unusual kind of quota system.

Senator **Danforth**. But it is hard as a politician, isn't it, to explain to your constitutents that, "Yes, we passed a quota bill on textiles but, I'm sorry, we are not going to pass a quota bill when import penetration is, say, 77 percent as it is in shoes," or whatever?

Senator **Gorton**. We face the same kind of dilemma you do Mr. Chairman. You were extraordinarily eloquent in your explanation of your philosophy and how you felt as a result of the President's action on shoes. And we face the same dilemma. We greatly prefer not to pass quota bills of any kind, because we are convinced that if we pass quota bills on 10 or 12 commodities, and almost inevitably a bill like this will attract amendments to add another 10 or 12 commodities, and that even if timber is one of them, from Canada, the net effect on our economy will still be negative.

Senator **Evans**. I would just add, Mr. Chairman, we, like almost every other Member of the Senate, are going to be placed in the unhappy position of saying, if we go this extra mile to provide trade protectionism and quotas on something like lumber, we clearly are going to be faced with the retaliation, and we will be trading off lumber jobs on the one hand for aerospace jobs on the other, or jobs in one industry for jobs in agriculture. And I think that that is to no one's benefit.

Senator **Danforth**. On the other hand, the trading system as it is supposed to exist, which is supposed to provide at least some possibility for remedies under controlled situations, that trading system is not now functioning. Is that not a fair statement?

Senator **Gorton**. That is substantially correct. At the very least one can say that the President has not used the weapons, the tools, which the Congress has given him in a way which would positively work toward removing this trade imbalance by balancing upward, by increasing exports, or even by enforcing laws with respect to imports, as you so eloquently outlined yourself.

Senator **Evans**. I would say, Mr. Chairman, too, that if the American dollar today were 30-percent cheaper in the world currency exchanges, as it once was, we wouldn't be here; we wouldn't have these kinds of hearings, and we wouldn't have the kinds of unemployment and trade problems that we do.

Senator **Danforth**. Well, we fought the battle of the budget, and we lost.

Senator **Evans**. Well, I am not willing to admit defeat very easily. I think we would be better off to reenter that parade than we would to do this.

Senator **Danforth**. Maybe we will win the war.

Senator Baucus.

Senator **Baucus**. Thank you, Mr. Chairman.

Gentlemen, I want to commend you on the thrust of your statements, which is, basically, let's not do something that is going to boomerang, come back and hurt us.

I very much agree with you that the bigger problem is the dollar, that the bigger problem is that this kind of legislation has a tendency of admitting that we are not going to compete, we can't compete, but rather we should be spending our time being more productive, building better products and trying to export much more aggressively, learning the languages of other countries, learning the cultures of other countries, and learning the styles and tastes of other peoples in other countries, so that our markets are not only in this country but much more in other countries as well. There is no doubt about that.

On the other hand, I think it is true that some countries do take advantage of us, and we have to in some way stop that.

There are various examples that one could cite: Perhaps the predatory pricing that some companies in some countries exercise, some targeting that some countries and companies participate in. In addition to that, when we ask for countries to open up, to lower their barriers, reduce their quotas, we rant and rave, we beat our chests and threaten with all kinds of action, talk big, and not much happens.

It seems to me that we have to show that we are going to stand up for what we believe in, and we have to back up our words when we say that countries have to open up and share greater access.

My question to you is: If this legislation in your view is not a good idea because it is too protectionist, how do we get other countries to open up more? How do we get them to do what they know they should be doing but they are not going to do until they have to do it?

I am thinking of Japan, for example, in processed forest products. Japan still have very high tariffs in processed forest products. They are not about to reduce those tariffs until they have to.

Canada, too, subsidizes its dumpage, its timber sales. It knows that that is a subsidy, and it is not about to change those practices until it has to.

My question then is: If we don't pursue narrow self-defeating legislation that is protectionist, how do we, on the other hand, force other countries to do what they know they should be doing? And I will precisely ask you about Canada's dumpage, because that is a product that is very near and dear to all of us in the Pacific Northwest, and also Japan with respect to processed forest products—plywood, liner board, et cetera.

Senator **Gorton**. Well, if I were to start with the specifics that you have mentioned last, the most attractive idea I have heard is one which tests the Canadian claim that there is no subsidy of stumpage prices. And that can be tested best by the administration's aggressively negotiating with Canada to open up that stumpage—you know, open up that Canadian timber—for purchase by American mills. That will test it better than anything else. Then, of course, those who purchase it will be competitive. I find that idea an extremely attractive one. It is one that has been suggested to us by several of our constituents who face this precise problem.

Your overall question, however, is a broader, more philosophic, and in some respects a more difficult one to answer.

I had the privilege to be on "that side of the desk" in a hearing which the Banking Committee held on computer products and our relationship with Japan, in which was detailed the fact that as in so many other areas we have an open market and they have a closed market—essentially a closed market—and what is there to be done about an area in which we are preeminent with respect to our own technology?

It is probably easier to answer your question as to what doesn't work than to what does. Clearly, we have not been successful with the Japanese by negotiating commodity by commodity for the removal or the lowering of specific kinds of restrictive trade practices. Clearly we are not believable with Japan when we simply ask them, unilaterally, to reduce those trade barriers.

That is why, in my view, probably the greatest single step forward we could take would be the aggressive use by the administration of the powers which last year's Danforth bill gave to the President of the United States, to say in effect that even though they may be restrictionist, if other countries like that one are not going to be open to our products, we are going to impose reciprocal restrictions on their ability to sell in the United States.

I have a bill before this committee which has the same kind of direction, by imposing a tariff on goods from Japan until and unless they increase their purchases of American goods, and one which goes up and down on a sliding scale depending upon how much they do so.

What we have to find, however—and I wish I had a perfect solution to this, and do not, Senator Baucus—is a way in which to reduce this trade balance by going up, by having markets in other countries which are open to us as we are to them. I really don't see that we can succeed in that unless we are willing to put teeth into our negotiating postures and have a stick as well as a carrot in our hands when we negotiate with those countries.

Senator **Baucus**. I agree with that. I appreciate your answer.

Without taking too much of the committee's time, let me just explain one experience I had.

Last year, in trying to get Japan to increase their quotas on American beef—as you know, Japan has very tight quotas on American beef—I explained to the Japanese that, even though I am opposed to domestic content legislation, I was going to help lead the effort in the Senate to get that bill passed if Japan did not open up its quotas on beef. And that caused a big flurry. My photo was all over Japanese newspapers. I can't read a word of Japanese, but I have an idea of what it said. [Laughter.]

But I got some letters back from American businessmen in Tokyo, and one in particular I thought was very interesting; it was, essentially, "Dear Senator Baucus, I don't know who you are, we have never met before. The Japanese are very courteous, decent, polite people; but they only understand one language, and that is power."

And I firmly believe that is human nature: people generally don't do much until they have to do it for some either short- or long-term gain.

I think that, yes, we have to be broadminded and open; but we also have to show them we mean business. And the kind of approach you talked about I think makes some sense. Similar approaches make some sense. And frankly, I think it will help the Prime Minister and other members of the ministries over there do what they know they should be doing so that we get some results.

Thank you.

Senator **Grassley**. Senator Danforth, the chairman, is going to go vote and then come back. Senator Mitchell requested if you folks could come back after the vote, because he had some question he wanted to ask you.

Third, I have a comment—since it is my turn for questioning — in regard to what Senator Evans said, that he believes the message is getting through, I guess you said to the White House. It may be getting through to the White House; but I think the important thing is that the message gets through to our trading partners, and I think it is very important that it get through very early, because I think there just is not very much patience left. And the message that Congress is trying to send here isn't just to the White House but is to a lot of our trading partners, people who express free trade but don't necessarily practice it.

I would like to express for the committee that I won't be able to participate anymore, because I have to go testify before the Higher Education Subcommittee. But I do want to introduce to the committee and make known a constituent of mine who is on panel 4, Mark Markovitch, president of the Boyd Co. in Iowa Falls, IA. He will be testifying for the Luggage Leather Goods Manufacturers of America.

I had an opportunity to visit with him previously, and privately in my office, and he will have good testimony that I hope the committee will pay very much attention to.

I would suggest, since I am the only one that is left here, that you will want to go vote and then come back. Right?

Senator **Evans**. We were just talking about that. I think, unfortunately, the action on the floor shortly after this vote will affect our State, and Senator Gorton probably will remain over there. I will be happy to come back for at least some period of time.

Senator **Grassley**. All right.

Senator **Evans**. I might just say, in terms of our trading partners' understanding, I suppose that remains to be seen. But I do think that what is going on here in this hearing, and what has happened in terms of congressional expressions on trade, have all been valuable in getting that message across.

Senator Dole asked the Japanese to send a special high-level delegation back to Washington, DC, on this specific issue, and they will arrive here shortly, and we will see what kind of reaction there is. And that may guide us into what we may have to do, both through legislation and through further executive action.

But I do think we have to look at our trading partners' differentially. We have a huge trading deficit with Japan and a big problem in opening markets. In terms of China, we don't have a very big trading relationship currently; we don't have a very big differential in terms of exports and imports. But the potential is absolutely enormous. And for us, at this early stage, to stagger that growing relationship by cutting back very, very sharply the one export that they can earn foreign exchange on, and that is textiles and apparel, it seems to me would do long-term harm for the United States that would be very difficult to overcome.

Senator **Grassley**. The committee will recess until Senator Danforth returns.

[Whereupon, at 2:44 p.m., the hearing was recessed.]

AFTER RECESS

Senator **Danforth**. Ladies and gentlemen, I apologize. We just had a vote on the floor of the Senate, and we had to leave for a few minutes.

Senator Evans, thank you very much for returning.

Senator Mitchell.

Senator **Mitchell**. Thank you very much, Mr. Chairman.

Senator Evans, I commend you for your statement. As usual, it was very forceful and a persuasive presentation of your point of view.

This morning when you testified before this committee, I agreed with that point of view. This afternoon I do not, but I recognize the persuasive nature of your statement.

Senator **Evans**. Fifty percent isn't bad.

Senator **Mitchell**. Fifty percent isn't bad, right.

Mr. Chairman, I would ask that a statement that I have, opening remarks, be inserted in the record at the appropriate point.

Senator **Danforth**. Without objection.

Senator **Mitchell**. Senator Evans, did I understand you to say in response to Senator Danforth's question that you are opposed to any action by Congress to deal with the problem of lumber imports into the United States from other countries?

Senator **Evans**. Not necessarily "any action." I think that the question, as I understood it, was primarily on setting quotas or something of that nature, and I join with Senator Gorton in believing that the course we ought to pursue instead is one that is perhaps unique to the timber industry, but with the claim that they are subsidizing stumpage, we are going to move as strongly as we can and encourage the help of the administration in opening up the opportunity for American bidders to bid on that stumpage. And if it in fact is unusually cheap, we can ship the logs south and have a considerable benefit, and be competitive with the Canadians in the United States. I think that is a far better direction to take than establishing quotas.

Senator **Mitchell**. But if that fails, and your answer indicating "not necessarily," you are acknowledging that under certain circumstances, in some industries, some form of relief from import surges may be appropriate; isn't that correct?

Senator **Evans**. Well, I think that we may find over time that some industries, just as we have in past years, that some industries are simply difficult to continue at least at their former levels, based on competitiveness and international trade. We are more competitive in some things than we are in others.

We could, presumably, virtually be self-sufficient. We could produce everything we need in this country for the people of this country. We could withdraw very substantially from the whole field of foreign trade. I am not sure that that would be in our best interests at all, or would produce all that more in the way of jobs.

Senator **MITCHELL**. And of course, no one has proposed that, to your knowledge. Right?

Senator **EVANS**. Of course. I understand. I am just talking about the potential end result of moving in that protectionist direction.

Senator **MITCHELL**. Well, I think, of course, the word "protectionist" has now achieved a pejorative connotation in this country. I would like to put it in a different perspective.

You have acknowledged, at least implicitly, that in some cases, under certain circumstances, some form of action by the Government may be appropriate. And I would argue that this is such an industry and these are such circumstances. And I would like to just ask if you are familiar with the restrictions placed upon American textile exports into those countries which now export their own textile goods into this country.

Senator **EVANS**. I think to some degree. I may not be acquainted with all of them as they affect each of the other nations, but I am certainly aware that those do exist.

Senator **MITCHELL**. Well, I think it would be useful, Senator, for all to become familiar with them, because they are a very relevant part of this discussion.

I have here a document published by the U.S. Department of Commerce entitled "Foreign Regulations Affecting U.S. Textile Exports." It is a dramatic and I think very revealing catalog, showing the extent to which other nations, and particularly those who are complaining most vigorously about this proposed legislation, restrict our exports.

I would just point to Korea, where there is an import plan based on a restricted list, that in order to gain access for textile imports into that country an applicant must receive the approval of the domestic manufacturers—that is, the competitors. And the manufacturers, before giving that approval, must certify that the application involves a product or products that are not produced or producible within that country.

Brazil virtually prohibits completely any American textile exports into that country. China, of course, is affected by this legislation. A supreme irony: I have before me excerpts from "The Journal of Commerce," Tuesday, July 16, 1985. On one page of the headline is "U.S. Warned on Imposing Textile Footwear Curbs." The story goes on to say how foreign governments are warning against imposing new curbs on imports of textiles, and refers to the Government of China. On a separate page of the same newspaper on the same day, the headline is, "Chinese Effect New Import Taxes." A 200-percent levy on American textile exports to that country was increased by 40 percent, on the same day that the Chinese protested against the United States considering any legislation here.

My question is: Given these circumstances, in which each of these nations is aggressively pursuing policies that are limiting or prohibiting American exports of these products into their countries, what specific recommendation do you have for our policy in this area, given the repeated unwillingness of other nations to change their policies

Senator **Evans**. Senator, I believe we have plenty of existing laws on the books to handle those kinds of problems. And I know of no other industry, or at least few other industries, with as many quotas and opportunities for protection as the textile and apparel industry.

So, the existing laws already are significant. We are part of a Multifiber Agreement and Arrangement, and we may say that it doesn't work perfectly, and I would agree with that. It is subject to renegotiation, and that renegotiation is already starting. And I think that those international institutions are the proper forum in which to discuss and to bring about necessary change in this kind of circumstance.

Unilateral action, country-by-country, only brings us to the point of each on trying to out-do the other. Senator Gorton says, we will end up working toward the minimum instead of building toward the maximum. I think that is in no one's best interests—ours or any of our trading partners.

So I would suggest—and perhaps I have some of the same frustrations you have—that the administration has not always used the existing laws to the degree they might have, to be as aggressive as they might have been. Frankly, I think we are seeing some change now, and that change is being brought about because of the congressional initiatives and because of what is being said and because of hearings like this. I think we ought to much prefer that as a course of action, rather than adding another series of laws to an already-extensive series of laws and then come back a year from now and complain that these laws are not being enforced adequately.

Senator **Mitchell**. Well, I will just say, in conclusion, you are vigorously and appropriately representing a State in which the largest employer is a major exporter. We certainly understand that. There are many others of us not in that fortunate circumstance, where we have domestic industries that face this challenge.

When you talk about unilateral action, it implies the United States acting in this area in the absence of action by other countries. And I simply point out to you that every other country is doing it except us. The consequence is that we are paying the price.

And I suggest to you that this course of action is necessary, particularly given the administration's refusal to act in this area.

I thank the Senator for your comments.

Senator **Evans**. Just as a correction, my intent in speaking about "unilateral" was the Untied States taking action independent of anyone else as being unilateral action. Other countries would take the same kind of action. I think we would all be better off if there were more bilateral or multilateral approaches to this whole question, industry-by-industry or in a broad sense, because be take the unilateral actions in one commodity—they will take them in another commodity.

Senator **Danforth**. Senator Evans, thank you very much for your testimony.

Now we have two Members of Congress: Congressman Zschau and Congressman Heftel.

Congressman Zschau, you are first on the list. Maybe you have worked out something between yourselves, but your name is first on the list.

Mr. **Heftel**. Alphabetically and otherwise, California being larger than Hawaii, I think my colleague should proceed.

STATEMENT OF HON. ED ZSCHAU, U.S. REPRESENTATIVE FROM THE STATE OF CALIFORNIA

Mr. **Zschau**. I thank my college for yielding; and I appreciate, Mr. Chairman, the opportunity to share some thoughts on this issue.

As you well know, I represent not a textile-producing area but the Silicon Valley area of California. And you might wonder why I testify on this.

It is my sense that this bill, along with many other so-called protectionist bills, although targeted on specific industries, could have significant and adverse effects on electronics and other export-oriented industries like agriculture.

Senator Gorton and Senator Evans talked about the negative impacts of this legislation on jobs in this country, when you consider all jobs including retail jobs. They talked about the cost to consumers and some of the negative impacts of that nature. I agree and want to underscore those.

But I would also like to point out that, if this legislation were passed, the United States would be an outlaw in international trade. We would be forced to abrogate 34 bilateral agreements. In my opinion, that would undermine our ability to encourage and influence others to abide by their agreements, not just in textiles but in many other areas. It would invite retaliation where we are exporting the most—namely, agriculture, electronics, and many other areas—and it would keep out of the hands of some of our trading partners hard dollars, so that they would by unable, even if they didn't retaliate, to purchase to the degree that they would otherwise purchase equipment like telecommunciations equipment and agricultural products.

So, the impact would be felt not just in the industries of focus but throughout the entire country.

What I would like to do in the short time that I have is examine the assumptions on which this legislation is based and protectionist legislation in general is based.

It seems to me protectionist legislation is based on the assumption that imports are bad, that imports cost jobs, and therefore imports ought to be curtailed.

My opinion is that imports are also a natural reflection of rapid economic growth in the United States. Since the bottom of this recession, imports have been up 55 percent and jobs have been up $8 million. So we have had a surge of imports, but we have also had a surge of employment.

We have had, over the past 15 years, a positive correlation between imports and jobs. It seems to me, rather than imports being the problem, lack of exports is the problem in our trade deficit. And if you look at the same data, since the depth of the recession, in real dollars our exports are exactly the same as they were in the

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recession. And it seems to me the conclusion one reaches is that our focus should be on increasing exports rather than curtailing imports.

Going to S. 680, it seems to me also that it is based on the assumption that the job loss in the textile undustry is due to the growth of imports; but the data, in my opinion, doesn't support that assumption. The textile industry lost 10 percent of its jobs, or 234,000 jobs, since 1979. However, when I examined the data I found that the job loss occurred by the end of 1982, before the period of the rapid growth of imports that occurred in 1983 and 1984. And, as a matter of fact, when those imports surged in 1983 and 1984, jobs in the textile industry increased by 30,000 during that period.

So, we had a surge of imports, but we also had an increase in jobs in the textile industry.

The culprit, in my opinion—if you could call it a "culprit"—is that the textile industry has had improved productivity, a very high level of manufacturing productivity growth. And as a matter of fact, while the employment was falling 10 percent during that period of 1979 to 1984, manufacturing output in the industry actually went up. You would expect that, if imports were causing the job loss, you wouldn't have improved output or increased output from the textile industry.

So it seems to me that when we look at solutions to the problem, we ought to look at the facts and the assumptions behind the solutions and see whether or not we are really dealing with the issue that we suppose we are dealing with.

Senator DANFORTH. Thank you, Congressman.

Congressman Heftel.

[Mr. Zschau's written testimony follows:]

STATEMENT BY ED ZSCHAU, MEMBER OF CONGRESS

S. 680, THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

Summary

1. The basic assumption of protectionism—imports cost jobs—is not supported by history. Since the bottom of the recession in 1982, imports have increased by 55 percent (1972 dollars), while employment has increased by 8.2 million. A lack of exports is the real culprit.

2. S. 680 is based on the faulty assumption that job loss in the textile industry was due to a surge in imports. The facts speak otherwise.

The job losses in the textile industry between 1979 and 1984 occurred before the rapid growth in textile imports which was experienced in 1983-84. Textile and apparel jobs *increased* by 30,000 during the period when imports were rising rapidly.

Textile and apparel imports are now *decreasing*. Imports were down 1.3% during the first seven months of 1985 compared to 1984. Imports from countries targeted by the bill have fallen 3.3% over the same period. In July, textile imports were down 13% compared to a year earlier.

Fewer jobs in textile manufacturing are the result of significantly improved productivity. Over the past decade the textile industry's labor productivity growth rate has been 5.2% per year, one of the highest of any U.S. industry. Manufacturing output of the industry increased by 7 percent from 1980 to 1984 while employment fell by 10 percent.

3. Passage of S. 680 would not significantly increase U.S. jobs but it would increase the cost of clothing for consumers.

Clothing prices would increase by at least 10 percent, costing American consumers $14 billion per year. The poor would be hardest hit.

The legislation might "save" a net of 9,000 jobs, but at a cost to consumers of $1.5 million per job.

4. Implementation of S. 680 would make the U.S. an outlaw of international trade, undermining our influence to enforce trade agreements and inviting retaliation. That could curtail our exports even more.

The legislation violates 34 bilateral agreements and would undermine our ability to insist that our trading partners abide by trade agreements.

Retaliation could be directed at the industries in which the United States exports best such as agriculture, aviation, and technology products.

5. America must rise up to meet its competitive challenge and not run from it. That means that we must aggressively negotiate and enforce fair trade agreements and stimulate U.S. competitiveness.

The Multi-Fiber Agreements should be re-negotiated;

Congress should enact many of the recommendations of the President's Commission on Industrial Competitiveness with a focus on increasing U.S. exports.

The budget deficit must be reduced if industries like textiles and apparel are to have a chance at becoming competitive.

Statement by Ed Zschau, Member of Congress

S. 680, THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

Mr. Chairman, I appreciate the opportunity to appear before this distinguished committee to express my views about S. 680, the Textile and Apparel Trade Enforcement Act of 1985.

My congressional district in Northern California—commonly known as "Silicon Valley"—is known for its electronics industry and not for textile and apparel manufacturing. However, this legislation, although intended to focus on just the textile industry, could have significant and adverse effects on electronics and other industries across the country. I also believe that it would be counterproductive to the U.S. textile and apparel industry when considered as a whole. I'd like to explain why and how. I'd also like to suggest what Congress and the Administration should do to reduce our trade deficit and help to create more U.S. jobs.

Before addressing the specifics of S. 680, I'd like to make a general observation: Protectionist legislation such as this is based on the assumption that imports are bad, that they cost jobs, and that they should be curtailed. The data doesn't support that assumption. Specifically, I would point out that a surge in imports is a normal result of rapid economic growth in and is, therefore, usually associated with higher rather than lower U.S. employment.

Since the bottom of the recession in 1982, total U.S. imports have increased by 55 percent (in 1972 dollars), while employment has increased over the same period by 8.2 million jobs. In fact, import and GNP data over the past 15 years show a strong, positive correlation between imports and economic growth. However, imports have remained flat since the fourth quarter of 1984 coinciding with a slowdown in U.S. economic growth.

This observation suggests that rather than focusing on curtailing imports, we should be focusing on increasing exports. Our U.S. exports are at about the same level today (in constant 1972 dollars) as they were at the bottom of the 1982 recession. Our ability to compete in the international marketplace has not kept up with the growth in the U.S. economy. Expanding exports through negotiation and enforcement of fair trade agreements and by increasing U.S. competitiveness is the theme of my testimony today.

S. 680 is based on the assumption that job loss in the textile industry is due to imports. The data does not support that assumption.

Employment in our textile and apparel industry is down by more than 234,000 jobs since 1979, according the Fiber, Fabric, and Apparel Coalition for Trade. However, these jobs were lost in the period 1980–82, *before* the rapid growth in imports that was experienced in 1983 and 1984. In fact, U.S. textile and apparel jobs actually *increased* by 30,000 when imports were increasing most rapidly.

Recently, textile and apparel imports have subsided. Imports were down 1.3% during the first seven months of 1985 compared to 1984. For July 1985, textile and apparel imports were 13% lower than in 1984. Moreover, imports from the countries that are targeted by S. 680 are falling faster than the average. Even if imports were the problem, this bill has both the wrong timing and the wrong target.

Instead of imports, lower employment in textile manufacturing is the result of improved productivity in the industry. Labor productivity in the textile industry has increased by 5.2 percent per year compounded between 1974 and 1982. This increased efficiency enabled the industry's production to increase (in 1972 constant dollars) by 7 percent between 1980 and 1984, while at the same time reducing its employment by 10 percent. Unfortunately, while the industry's productivity improvements have been impressive, the over-valued dollar has prevented them from achieving competitiveness in international markets. As a result, the volume of U.S. textile exports fell 46 percent from 1980 to 1982 and has not recovered since then.

Passage of S. 680 would not significantly increase U.S. jobs but it would increase the cost of clothing for consumers.

A study conducted by the International Business and Economic Research Corporation found that S. 680 would cause only a net increase of 9,000 jobs in the textile and apparel industry—but at a cost to the American consumer of $1.5 million per job. According to the study, some 62,000 jobs would be lost in the retail apparel industry.

Limiting textile imports would hurt American consumers. Competition helps keep clothing prices down, so reducing competition would result in price increases. It's difficult to estimate the exact impact on the U.S. consumer, but it would be substantial. According to the Reagan Administration's estimates, S. 680 would cost American consumers a total of $14 billion per year. Other testimony this committee has already received indicates that clothing prices would increase by 10% because of this legislation, and selected merchandise would increase considerably more. Low income consumers would be particularly hard hit since a larger portion of their income is spent on clothing.

Implementation of S. 680 would make the U.S. an outlaw of international trade, undermining our ability to enforce trade agreements and inviting retaliation. That could curtail exports even more.

In addition to the impact on jobs and consumers, this legislation is in blatant violation of existing international trade agreements. It would cause the United States to abrogate the Multi-Fiber Agreement and 34 bilateral trade agreements now in effect. This is not the kind of leadership that the United States should be exercising in the international trade arena. Instead, it will undermine our ability to influence our trading partners to abide by fair trade practices and agreements. This adversely affects our position not only on textile and apparel trade, but on all trade issues.

Finally, it is foolish to believe that these nations would just accept the bill's provision lying down. Retaliation would almost certainly occur. According to the Administration, retaliation would be aimed at three targets: U.S. corn and wheat exports, which accounted for $5.1 billion in 1984 exports to the 12 major textile and apparel importing nations, aircraft, which account for nearly $3 billion, and cigarettes and tobacco, accounting for $750 million. Also, retaliation could be directed at industries like semiconductors, telecommunications, and other electronics exports, especially by the Japanese. S. 680 would reduce textile and apparel imports from Japan by 18 percent.

For the last ten years, U.S. semiconductor marketshare in Japan has been held at only 10 percent while the Japanese share in the U.S. has more than doubled to over 20 percent. The Semiconductor Industry Association has filed a petition under Section 301 of the Trade Act requesting that the correction of this problem be made a primary U.S. trade objective. At a time when real progress might be made on this issue, legislation like S. 680 would be very counterproductive.

America must rise up to meet its competitive challenge and not hide from it.

Mr. Chairman, as a Member of Congress I realize that if the choice on the trade issue is between enacting protectionist legislation or "doing nothing", then protectionism will win.

If we must "do something" about international trade, and I believe that we must, it should be the right thing. Instead of surrendering to the challenge from abroad, we should rise up and meet it. Instead of hiding from the competition, we should make sure that government is doing the right things to insure that American workers can compete at their very best.

In my view, there are three things that government should be doing to address the competitive problems suffered by the textile and apparel industry: (1) Renegotiate and improve the Multi-Fiber Agreements; (2) Enact many of the recommendations of the President's Commission on Industrial Competitiveness, and (3) substantially reduce the federal budget deficit.

Advocates of this legislation often state that textile and apparel imports have exceeded the levels indicated in the Multi-Fiber Agreements. If this is true, then the nation that is the true leader in the international trade area would seek better enforcement of the existing agreements or a re-negotiation of the agreements. A true leader would not unilaterally abrogate 34 agreements.

Innovation, growth, and exports cannot be forced by protectionist measures or government "targeting" of selected industries. Rather, economic growth and prosperity result from the vision and genius of individuals who have the money and courage to take risks in exploring new ideas. As such, innovation can be fostered by government policies that promote free trade and entrepreneurship.

The Steering Committee of the Republican Task Force on High Technology Initiatives, which I chair, will soon publish an Agenda for U.S. Leadership in Technology and Industrial Competitiveness which contains 10 initiatives that we believe the 99th Congress should take to strengthen the prerequisites that are fundamental to the process of innovation. We have given special attention to the recommendations of the President's Commission on Industrial Competitiveness, which reported to the President recommendations earlier this year on what government can do to help American workers and businesses to compete in the international marketplace. Our recommendations will include suggested changes in tax policy, intellectual property rights, science policy, worker retraining, and trade policy.

Finally, the massive federal budget deficit continues to help keep capital costs high and the dollar strong, which discourages U.S. firms from expanding into foreign markets.

Unfortunately, the budget resolution that passed on August 1, 1985 just doesn't do the job of bringing down the deficit to a level that would help spur exports. Instead, we need program changes that will place the deficit on a downward path toward reducing the deficit to 2 percent of GNP by fiscal year 1988. We had an opportunity to do this earlier this year, but Congress lacked the will power to make the necessary budget changes that would improve the trade situation. Unless additional cuts can be made this month, Congress will have effectively made scapegoats out of the leading importing countries to hide our inability to take the necessary actions on the budget.

CONCLUSION

In summary, Mr. Chairman, the cause of the problems that face the U.S. textile and apparel industry--like many U.S. industries—is not imports. Our problem is a lack of competitiveness and insufficient exports. The correct solution is one that focuses on the real problem. Protectionism will not help. If protectionism were the solution, then the textile and apparel industry would not have a problem, as tariffs already average more than four times the average tariff of any other U.S. industry. The correct solution is the enactment legislation aimed at spurring exports and competitiveness.

Mr. Chairman, thank you for the opportunity to testify today.

STATEMENT OF HON. CECIL HEFTEL, U.S. REPRESENTATIVE FROM THE STATE OF HAWAII

Mr. HEFTEL. Thank you, Mr. Chairman. I am delighted to have this opportunity to discuss the problem at hand with you and my esteemed colleague from Hawaii, Senator Matsunaga, who I would like to say hello to.

I think that all of us, as a body, as a Nation, as individuals, Members of Congress, are suffering from a dilemma. And I think Hawaii and myself serve as an example of that dilemma.

We have a sugar industry with at least 20,000 jobs at stake. And in the marketplace today, interestingly enough, there is dumping occurring at something around 3 cents a pound. The countries dumping at 3 cents a pound spend 18 cents a pound to produce, and so does Hawaii, and that isn't including a profit margin.

Now, obviously we have to be concerned with anything that occurs which would permit that 3-cent sugar to put an end to the domestic sugar industry. It isn't in the national interest, and it certainly isn't in the interest of the 20,000 people whose jobs would be lost.

Now, at one and the same time, we have the textile problem. And in this instance we have 3,000 jobs in a growing industry, reaching about $100 million in volume, and those jobs are going to disappear if the present textile legislation were allowed to pass. It would just simply end the industry. There is no way that, from the

American manufacturer, those producers of garments in Hawaii could obtain the fabrics in the color and form that they get them from the foreign sources.

And so it is a classic of how, if we just irresponsibly pursue our selfish interests, ignore anything except the target at hand, we can hurt ourselves inadvertently.

I have a feeling that, when this textile legislation originally surfaced, it wasn't a serious piece of legislation which people thought would be the hearing of today and might be forced on the President's desk for veto.

But there is a message in that legislation that is what I heard the members talking about: We don't have an adequate policy; we don't have a methodology whereby the President of the United States either has what he needs or knows how to ask for what he needs to protect sensibly American industry from exploitation from foreign sources.

Our trading partners will take advantage of us as long as we allow them to. And you can't keep talking about free trade—there is no such animal. Our trading partners don't want free trade; they want free access to our markets. They don't care what the price is to us. They are not going to give us free access to their markets. And so we've got to get smarter; we have to get more concerned with our self-interest and our self-protection. And you can't have a national policy determined partially by what is needed in the domestic marketplace and partially by what the State Department wants in negotiating foreign affairs.

Right now, our trade problems are partially a product of the fact that what is good for us domestically is traded away for objectives in our foreign relations arena.

So we have to develop, with a sensitive Presidency—and today's paper, and in the last few days, indicates the President is getting a little more sensitive to the problem—some kind of a resolution to what confronts us.

Now, there is one potential solution that surfaced in this body from former Senator Tsongas, because he presented it to me, in which you elevate the Trade Representative, allow him to resolve 301 problems, and give him the vested power without recourse for what is needed to protect domestic industry when we are being exploited.

Now, if we don't come up with an overall solution out of the administration or the Congress, then these problems will continue to plague us, and we will all get hurt at different times and in different ways.

If you go back not that many years when our garment industry wasn't a factor, we would have been delighted with protected sugar or wouldn't have paid much attention to what the price was for that protection. Today we've got a garment industry; we've got to be concerned.

So I hope that this body will continue what I heard in the dialog previously about the fact that we've got to look at the deficits, the value of the dollar, and the way that we negotiate and how tough we get in letting people know you can't exploit us.

I would hope that out of these hearings will come either the legislation or, in the alternative, action on the part of the President to bring some commonsense protection to our industry, and let people know we understand what it means to be fair, and that we are willing to be fair but we will not allow others to be unfair to us and exploit us in the name of free trade, which is what is now occurring.

I thank you, again, for being given this opportunity.

[Mr. Heftel's written testimony follows:]

Testimony of Congressman Cec Heftel

Mr. Chairman and members of the Committee, thank you for allowing me to appear before you this afternoon to discuss an issue that has not only become a major source of concern in my state of Hawaii, but threatens to create a divisive national policy if enacted by Congress. Specifically, I am here to discuss the textile import legislation now pending in both houses of Congress, and bring to your attention what I believe are major flaws in the legislation.

In my state of Hawaii, where aloha shirts and muumuus are synonymous with the islands, our garment industry is important to our local economy. Yet, for a number of reasons, the fabrics with which we make our sportswear and swimwear must be imported.

Though important to our island economy, our garment industry is nevertheless small when compared to apparel manufacturers on the mainland. The 138 or so small firms that make up our garment industry import 80 to 90 percent of their textiles from the Orient. Hawaii firms can order fabrics at competitive prices from Japan in quantities as small as 3,000 yards, which is about a third the size of a typical order from a mainland manufacturer. U.S. mainland manufacturers are unwilling to provide such small quantity needs where screen printed, multi-colored fabrics are generally in less demand, of lower quality, and more expensive to produce. Our local industry has furthermore had unsatisfactory experiences with purchasing fabrics from the mainland because of poor delivery and high damage rates.

Congress is now considering legislation to stem the import of textiles because of a perception that foreign-made fabrics are putting our textile manufacturers out of business. Certainly, the unemployment numbers speak loudly. But it is simplistic to think that imposing additional protections will solve the problems of our domestic industry. Rather, Congress is attempting to take a shotgun approach to trade policy that will not solve our problems.

The predicament of our textile industry is not unlike that of any other American industry suffering from competition abroad. One of the causes of our problems stems from an overvalued dollar abroad, which has resulted in a monumental trade deficit. Unemployment problems are further exacerbated by an increased technological efficiency in the production of the goods, which has resulted in fewer labor needs. In the final analysis we cannot escape the fact that the Administration has failed to effectively use the bargaining tools that it has to persuade our trading partners to open their markets to American goods.

I am not convinced that implementing new textile import barriers, which would be in addition to the already existing Multi-Fiber Agreement and the average 22 percent tariff we now impose on imports, would accomplish anything except to cost jobs in the apparel retail industry and raise clothing prices for consumers.

Mr. Chairman, we clearly need to address the more urgent problems of budget deficits and overall trade policy if we hope to save American industry. The piecemeal approach we are taking to protect individual industries as they are on the verge of collapse will not work.

The legislation under consideration by Congress has furthermore been designed to be applied in a highly discriminatory fashion and would not even include restrictions against the nations most responsible for exporting textiles. The Textile and Apparel Enforcement Act would limit imports primarily from Asian countries including China, Hong Kong, Taiwan, Thailand, and Korea. Most of the growth in the rate of imports, however, has been from the European Community, where imports were up 70.2% from 1983 to 1984, compared to 24.7% from the Asian nations. In fact, comparing the first six months of this year to the same time frame last year shows that Asian imports have decreased while EC imports have increased at a rate of 36%.

In recognition of the fact that Congress is determined to enact some kind of legislation to limit textile imports, I will shortly be introducing legislation to broaden the focus of the current bill by imposing a world-wide restriction on imports. My bill would become effective only if the International Multi-Fiber Arrangement has not been renegotiated satisfactorily and is in effect by July 31, 1986. It would also use a base year of 1984 instead of 1980, as proposed in the current legislation, since the more current year better reflects the source of the imports.

As a member of the Trade Subcommittee of the House Ways and Means Committee, I will promote my bill as a responsible alternative to the current legislation. I nevertheless firmly oppose legislation to impose new quotas on textile imports because it will not be constructive and will, in fact, create new and more devastating problems in both the short and long run.

Thank you, Mr. Chairman, for this opportunity to testify before your Committee. I will be pleased to answer any questions you may have.

Senator **Danforth**. Gentlemen, thank you very much for your very helpful testimony.

I am told that Congressman Rostenkowski has either announced or let it be known that the Ways and Means Committee will mark up this bill at the subcommittee level on the 19th of this month, September, and then the full committee on the 26th, and that if the bill is reported out of the Ways and Means Committee with relatively few amendments, it would be his intention to put it on the suspension calendar. As I understand the rules of the House, that means that it would be voted on without amendments, that a two-thirds vote would pass it, and that there are two-thirds of the Members of the House who are cosponsors of the bill.

Mr. **Heftel**. I think that the overall strategy is to bring the legislation without amendment both through the committee and to the floor.

Senator **Danforth**. Do you mean there would be no amendments in committee, either?

Mr. **Heftel**. That is the intent, at this point.

The reasoning, frankly, is that if you don't amend or improve the legislation, it is less likely to either pass on the floor, or it is more mandatory for the President to veto it. The overall attitude is that this bill is bad enough that, if you don't improve it, the President has to veto it; but that the message from the Congress would be, "This is what we are willing to do; we are so desperate for action from the White House on trade matters."

Senator **Danforth**. But your hope is that the White House would take matters into its own hands?

Mr. **Heftel**. That is what we are waiting for, and that is what this is all about. Their lack of action is what is producing a bad piece of legislation like this.

Senator **Danforth**. Well, as I said in my opening comments, I think that is exactly right.

Of course, if that practice were followed, that would mean that there would be no shoe provision in the House bill.

Mr. **Heftel**. That is correct. It is a token, at best.

Senator **Danforth**. That would make it much more difficult to pass in the Senate, I think.

Mr. **Heftel**. I think the intent is not to have it pass. I think the intent is to force it to be vetoed, and to force the President to take action. You can't ignore the plight of the textile, of the shoe industry, of the steel industry. You can't ignore what is happening in this country to its jobs. And the President, for some reason, thinks somehow it is all going to take care of itself. And, like the deficit, it won't take care of itself; we have to take action.

Senator **Danforth**. Senator Mitchell.

Senator **MITCHELL**. I thank both Congressmen for very forceful and effective statements.

I would say, Congressman Heftel, that we all share your hope about administration action; but, since the most reliable indicator of future human behavior is past human behavior——

[Laughter.]

Do you have any indication that the administration is about to reverse its position 180 degrees and adopt the stance that you have suggested it should?

Mr. **HEFTEL**. No, I don't. In fact, my Democratic colleagues hope the President will keep his head in the sand long enough to lose the Senate race of 1986 and the Presidency for the Republicans in 1988. I think that is too great a price to pay for winning those elections, and I would hope the President would realize what he is doing.

But you are correct: There is no reason to believe he understands well enough that he will take the kind of action that is needed. That is why I think we need overall constructive legislation that addresses the problem in a very realistic way and doesn't just create more problems than it solves.

Senator **MITCHELL**. Congressman Zschau, during your statement you reached several conclusions regarding a correlation between imports and new jobs. I would appreciate it if you would supply to the committee the statistics upon which you based those conclusions, including their source, so that we may look at them and evaluate them in that regard.

Mr. **ZSCHAU**. Yes. Senator, I appreciate your interest in that, and I would be delighted, in a written statement[1] that has some other points in it, to also include those pieces of data and the sources for the record.

Senator **MITCHELL**. All right. That would be very helpful.

Mr. **ZSCHAU**. Thank you.

Senator **MITCHELL**. Thank you, Mr. Chairman.

Senator **DANFORTH**. Senator Matsunaga?

Senator **MATSUNAGA**. I want to congratulate you both. And I ask this question not to embarrass my colleague from Hawaii in any way, but more to set him up as an example for others to emulate—that is, others who are sponsors of S. 680 and the similar bill in the House.

Were you not originally a cosponsor of the House measure?

Mr. **HEFTEL**. Yes, I was, to send a message, without any question. And I have never been hesitant or reticent to point out that I was both on the bill and why I was on it.

I have no doubt that Members will be on additional pieces of legislation, because they have no other method of expressing both the frustration and the need to let their constituents know they are doing something about the problem.

Senator **MATSUNAGA**. So, the observation made by the chairman that it could be put on the suspension calendar may not necessarily happen, because there may be others such as yourself who may

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[1] Congressman Zschau's written statement starts on page 711.

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begin to see difficulties with the bill and not even support it on the floor?

Mr. **Heftel.** I think that there will be a number of us who will not support it on the floor. But I think it is desirable that it come to the floor on suspension. I think it delivers the best possible message to the White House. And I think there is a chance that the need for the Members to express themselves in terms of sensitivity to the problem may still produce enough votes to pass it on suspension.

Senator **Matsunaga.** Fine. Thank you. Thank you both.

Senator **Danforth.** Thank you both.

The next two witnesses are the Honorable John Waihee and the Honorable Edward Reyes.

And, Senator Matsunaga, would you like to introduce your Lieutenant Governor?

Senator **Matsunaga.** Thank you very much, Mr. Chairman.

Mr. Chairman, it is indeed my pleasure to introduce the Lieutenant Governor of Hawaii, the Honorable John Waihee. It is appropriate that he addresses the issue of discrimination against the Pacific raised—in S. 680—not only on behalf of Hawaii's Governor, George Ariyoshi, but also on behalf of all the chief executive officers of the U.S. territories and affiliates who constitute the governing body of the Pacific Basin Development Conference.

I make this observation in light of Mr. Waihee's Polynesian roots, as well as the position he holds as the State government's second-ranking elective officer.

While a native son, and a native Hawaiian of the Aloha State, Mr. Waihee lived for several years in Michigan, where he graduated from Central Michigan University and was employed by community development organizations before returning home to Hawaii to become a social worker in the Honolulu Model City's Program. Subsequently, he entered the University of Hawaii Law School and was a member of the first graduating class in 1978, the same year he was elected to membership in the Hawaii State Constitutional Convention, where his leadership among younger delegates was soon evidenced.

From this beginning in political life, Mr. Chairman, he went on to become a member of the Hawaii State House of Representatives, where he served for two terms before being elected to his present position of Lieutenant Governor.

I am certainly pleased to present Lieutenant Governor Waihee.

Senator **Danforth.** Thank you, Senator Matsunaga.

Governor Waihee, would you like to proceed?

STATEMENT OF HON. JOHN WAIHEE, LIEUTENANT GOVERNOR, STATE OF HAWAII, ACCOMPANIED BY REXFORD C. KOSACK, ATTORNEY GENERAL, NORTHERN MARIANNA ISLANDS

Governor **Waihee.** I want to thank you, Mr. Chairman, and the members of this subcommittee, for allowing us the opportunity to testify on S. 680, the Textile and Apparel Trade Enforcement Act of 1985.

I will be testifying on behalf of Governor Ariyoshi of the State of Hawaii and the Pacific Basin Development Council.

The PBDC is a nonprofit organization governed by the Governors of Hawaii, Guam, American Samoa, and the Commonwealth of the Northern Marianna Islands. Sitting next to me on my left is Rex Kosack, who is the attorney general from the Commonwealth of the Northern Marianna Islands. He also will be here representing the PBDC.

We are strongly opposed to the passage of this legislation, because it will adversely affect the Hawaii garment industry, the State of Hawaii, and the U.S. territories in the Pacific.

I would like to amplify a little bit on the background that was presented by Congressman Heftel regarding the garment industry in Hawaii.

It is composed of about 138 establishments and employs approximately 3,000 workers. Now, from its inception this industry has depended very heavily on Asian textiles to produce what we call our "island wear," or "aloha shirts." And since Hawaii's industry has always depended upon Asian sources for its textiles, the jobs that are affected were never taken away from domestic mills, and American workers were never, in our view, affected as a result of this importation.

As much as, conservatively, 64 percent of the materials used by Hawaii's manufacturers come from foreign countries. The reason is that the quality of prints, the colors, and the special screened fabrics that are used are available only essentially from Asia and cannot be produced in sufficient quantities in the United States to meet the demands of our industry.

And since the legislation applies only to certain exporting countries, it obviously creates a bias against those manufacturers in Hawaii who are dependent on textiles produced in Asia.

This kind of unequitable and unfair treatment, we believe, will cause at least a 30-percent reduction in the types of materials that can come into the State of Hawaii.

The decline of Hawaii's garment industry will not only affect the people directly employed but also will have an effect on our tourist industry, which is so heavily dependent on the garments and apparel produced in the State of Hawaii. As a matter of fact, tourist expenditures on clothing and accessories topped $400 million in 1983.

Over 33 percent of the visitors to Hawaii were foreign residents, many of them from Japan, and we believe that the garments purchased by these individuals have contributed substantially to reducing the imbalance of trade with the United States.

We believe it would be inequitable and unreasonable to single out Asia as the cause of this trade deficit.

We hope that, if we are concerned about the increasing market share of Asian textiles, as we all should be, we hope that this would be better addressed or should be addressed when we meet in July 1986, on the Multifiber Agreement.

The State of Hawaii and the Pacific Basin Development Council were also shocked that this legislation treats the U.S. territories such as Guam, American Samoa, and the Commonwealth of the Northern Marianna Islands as foreign countries. It is incomprehensible to us that these U.S. territories receive less favorable treatment than Canada, member states of the European Economic Community, and countries which are eligible to designation as beneficiaries of the Caribbean Basin Initiative.

The Pacific territories have looked at apparel manufacturing and textile operations as part of their future economic independence. These operations have provided needed employment and have lessened the territories' dependence on the Federal budget. And we believe that this legislation, if passed, would lead to a dismantling of this very promising industry.

The act also provided an import-licensing program which would be very burdensome for people as far away as the territories and the State of Hawaii.

Accordingly, for these reasons, Mr. Chairman and members of the committee, we would urge that you recommend to the Senate Finance Committee that the legislation be tabled.

Senator DANFORTH. Thank you, sir.

Governor Reyes.

[Lieutenant Governor Waihee's written testimony follows:]

EXECUTIVE SUMMARY—TESTIMONY OF LT. GOV. JOHN D. WAIHEE

I. POSITION

The State of Hawaii and the Pacific Basin Development Council (PBDC) are strongly opposed to the passage of S. 680.

II. BACKGROUND ON HAWAII'S GARMENT INDUSTRY

The garment industry in Hawaii consists of 138 establishments, employs an estimated 2,950 workers, purchases about $46.7 million of materials annually and has an annual gross product of approximately $80 million. As much as 64 percent of the materials used by Hawaii's manufacturers come from foreign countries because the quality of prints, colors and the prices and special screened fabrics used are available only from a few domestic mills and are not produced in sufficient quantities to meet the demand of Hawaii's industry.

From its inception, Hawaii's "Island wear" garment industry has depended upon Asian textiles due to the uniqueness of this industry. Thus, these textiles have always been provided by Asian sources and jobs have not been directly taken away from domestic mills.

III. IMPACT OF LEGISLATION ON HAWAII

It will create a bias against garment manufacturers in Hawaii which depend on Asian textile producers and favor those garment manufacturers buying from Europe and the Caribbean. The estimated 20–30% reduction in imports from Asian countries resulting from the quota provision, will cripple Hawaii's industry.

This legislation will also hurt tourism, the state's largest industry. In 1983, visitor expenditures on clothing and accessories totalled $417.8 million. Over 33% of Hawaii's overnight visitors in 1983 were foreign residents, many of these visitors purchased garments made in Hawaii. Thus, Hawaii's apparel industry contributes favorably to the U.S. balance of trade.

IV. IMPACT OF LEGISLATION ON U.S. TERRITORIES

This legislation treats U.S. territories such as Guam, American Samoa and the Commonwealth of Northern Mariana Islands as foreign countries. These U.S. territories receive less favorable treatment than Canada, member states of the European Economic Community and Countries which are eligible for designation as beneficiaries of the Caribbean Basin Initiative. This legislation would lead to the dismantling of their apparel manufacturing and textile operations which will result in increasing the territories dependence on the federal budget.

V. IMPORT LICENSING PROGRAM

This is the first licensing program of its kind. The Commerce Department is not set up to handle the proposed import licensing program and it would be very burdensome on small potential importers who are located a long distance from Washington, D.C.

VI. NEED FOR ALTERNATIVE APPROACH

It is inequitable and unreasonable to single out Asia as the cause of the textile deficit. The increasing market share of Asian textiles should be properly addressed during July, 1986 when negotiators will meet on the Multi-Fiber Agreement.

VII. CONCLUSION

I urge the Subcommittee on International Trade to recommend to the Senate Finance Committee that this legislation be tabled.

TESTIMONY OF LT. GOV. JOHN D. WAIHEE

Good afternoon, Mr. Chairman and members of the International Trade Subcommittee of the Senate Finance Committee, thank you for allowing me this opportunity to testify on S. 680, the Textile and Apparel Trade Enforcement Act of 1985.

I am testifying this afternoon on behalf of Governor George R. Ariyoshi of the State of Hawaii and the Pacific Basin Development Council (PBDC). The PBDC is a non-profit organization governed by the Governors of Hawaii, Guam, American Samoa and the Commonwealth of the Northern Mariana Islands. The purpose of this organization is to conduct economic and social research on behalf of the Governors.

First, I'd like to present the State of Hawaii's position.

We are deeply concerned that this bill will adversely affect the Hawaii garment industry, the State of Hawaii and the U.S. territories in the Pacific. Accordingly, we are strongly opposed to the passage of this legislation.

I have personally received numerous calls from small businessmen in the local garment industry who are alarmed by this legislation. They have expressed fear that the economic viability of their businesses are at stake if the legislation is passed.

I'd like to give you a little background on our industry. The garment industry in Hawaii consists of 138 establishments, many of which are small businesses employing less than 20 people. The industry employs an estimated 2,950 workers, purchases about $46.7 million of materials annually and has an annual gross product of approximately $80 million. These numbers may sound small to some of you, but in Hawaii, let me assure they are significant.

From its inception, Hawaii garment industry has depended heavily on imported textiles due to the uniqueness of our "Island wear" industry. Since Hawaii's industry has always relied on Asian sources for textiles, jobs have never been directly taken away from domestic mills and American workers as a result of this importation.

As much as 64 percent of the materials used by Hawaii's manufacturers come from foreign countries, either directly or indirectly through domestic fabric houses. Only 13 percent of the dollar value of imports would not be affected by the proposed legislation since restrictions under this measure apply only to exporting countries other than Canada, the Caribbean region, and European Economic Community member states.

You may ask why Hawaii depends so heavily on Asian textiles. The reasons are that quality of prints, colors and the prices and special screened fabrics used are available only from a few domestic mills and are not produced in sufficient quantities to meet the demand of Hawaii's industry. In addition, smaller minimum quantities of fabrics are available from Asian producers than from domestic mills. This is crucial to Hawaii's garment industry in which apparel is generally not manufactured in large quantities as compared to apparel produced by other domestic manufacturers because of the uniqueness of our apparel.

The proposed quota rollback provision under the Textile and Apparel Trade Enforcement Act of 1985 will reduce the total amount of imported textiles needed to maintain Hawaii's current production. Since the legislation applies only to certain exporting countries, it will create a bias against those garment manufacturers such as those in Hawaii with established connections to, and dependence on, Asian textile producers and favor those garment manufacturers buying from Europe and the Caribbean. This is inequitable and unfair treatment and with the estimated 20–30% reduction in imports from Asian countries resulting from the quota provision, will cripple Hawaii's industry.

The decline of Hawaii's apparel industry will not hurt this industry only but will also hurt tourism, the state's largest industry. The Hawaii apparel industry is a unique and integral part of Hawaii's economy. "Island wear" has developed and flourished with the state's visitor industry. Since statehood, visitor expenditures on Hawaii clothing and accessories have increased at the same rate, or nearly the same rate, as total visitor expenditures. Clothing and garments are an important segment of the visitor market basket of goods and services. In 1983, for example, visitor expenditures on clothing and accessories totalled $417.8 million.

Over 33% of Hawaii's overnight visitors in 1983 were foreign residents, many of which are Japanese visitors. Hawaii is a popular destination for Japanese visitors who spend an average of $234 each day during their stay. This is two and one-half times more than visitors from the U.S. mainland. Many of these foreign visitors purchase garments made in Hawaii to take home. Thus, Hawaii's apparel industry contributes favorably to the U.S. balance of trade.

As I have indicated, our apparel industry is an important part of the entire Hawaii vacation experience. Tourism, as you are aware, has become one of the world's best growth industries, and the competition for the international tourist dollar becomes keener each year. While Hawaii imports textiles from the Asian nations, the state produces the wearing apparel which is sold in Hawaii and carried to every nation of the world. Our apparel industry is a positive factor in correcting the imbalance of trade. This bill will penalize the fastest-growing region in the world, an area where we should be more aggressive in pursuing markets, not more regressive in jeopardizing our trade interests with Pacific and Asian nations. This bill will likely result in a decline in Asian visitors to Hawaii, which we so heavily depend upon.

This textile quota bill would impose punitive actions against Asian nations and even our territories in the Pacific. To impose such a quota would do significant damage and further add to the area's political insecurities. Other disturbing activities taking place in this part of the world include the Soviet Union moving closer to completing its first fishing rights agreement with a Pacific island nation and dissolution of the ANZUS Regional Security Treaty that has upset regional harmony. This proposed textile bill which would unfairly focus its action on one area of the world will only heighten tensions.

I believe that it is unfair and unreasonable to single out Asia as the cause of the textile deficit. If we are concerned about the increasing market share of Asian textiles, as we all are, we should address this issue through negotiations. Negotiations will allow this issue to be resolved without unnecessarily penalizing segments of the U.S. garment industry which rely heavily on Asia's unique brand of textiles.

I believe this legislation violates the spirit and possibly the letter of U.S. obligations under the Multi-Fiber Agreement (MFA) and the numerous bilateral agreements negotiated under the auspices of the MFA. While other nations may be violating these agreements, we should not lower ourselves. I understand that the negotiators for the MFA will convene again in July 1986. This is the proper place where problems and issues relating to the international trade of textiles and apparel products should be addressed. This international forum was established for this purpose and should be used for such in order to promote orderly international trade agreements.

The State of Hawaii and the Pacific Basin Development Council are shocked that this legislation treats U.S. territories such as Guam, American Samoa and the Commonwealth of Northern Mariana Islands as foreign countries. It is incomprehensible to me that these U.S. territories receive less favorable treatment than Canada, member states of the European Economic Community and Countries which are eligible for designation as beneficiaries of the Caribbean Basin Initiative.

The proposed quotas in this bill will prevent any growth of the garment industry in the Territories of Guam and the Northern Mariana Islands and the establishment of any such industry in the Territory of Samoa.

Historically, Congress has sought to reduce the territories' financial dependence upon the federal budget as providing incentives for economic development. An example of these incentive programs is Headnote 3(a) of the Tariff Schedules of the United States (TSUS) which provides quota free and duty free entry of products produced in the insular possessions provided that in the case of garment, the foreign materials in the garment do not contain over 50% of their total value.

After repeated efforts the federal government has been successful in recruiting garment factories to locate in the territories. These manufacturers have invested millions of dollars to build and operate garment factories in Guam and the Northern Mariana Islands. The Pacific territories have looked at apparel manufacturing and textile operations as part of their future economic independence. These operations have provided needed employment and have lessened the territories' dependence on the federal budget. This legislation would lead to the dismantling of this promising industry.

This bill discriminates against the people of Guam who are U.S. citizens, the people of the Northern Mariana Islands who are interim U.S. citizens and the people of American Samoa who are U.S. nationals. These people are members of the American family and should be treated as such. They should be able to trade freely with American states. In addition, even if these territories were removed from the provisions of this legislation, the established quotas would be disruptive to their current industry.

This act also provides an import licensing program that is to be the first of its kind. Any textile importer, however small, would be required to obtain a license from Washington, D.C. The Commerce Department is not set up to handle this program and it would be very burdensome on small potential importers who are located a long distance from Washington, D.C. such as those from Hawaii and our distant Pacific territories.

I urge the Subcommittee on International Trade to recommend to the Senate Finance Committee that this legislation be tabled.

Thank you again, for the opportunity to testify.

STATEMENT OF HON. EDWARD REYES, LIEUTENANT GOVERNOR, TERRITORY OF GUAM

Governor **Reyes**. Thank you, Mr. Chairman.

My name is Lieutenant Governor Reyes from Guam, and on behalf of the people of the Territory of Guam and the Governor of Guam, I want to thank you for the opportunity to testify today on S. 680.

Guam, too, opposes the passage of S. 680. I appreciate the Lieutenant Governor of Hawaii's comments regarding the Pacific Territories.

Guam's textile industry was built on the premise of freely entering Guam textile products into the U.S. markets, but this vital and advantageous concession now faces disruption as the result of U.S. textile import regulations that attempt to protect the jobs and earnings of U.S. citizens.

In the restraint measures currently presented, the categorization of U.S. territories as "foreign" for purposes of S. 680 is clearly inappropriate and should be reassessed.

The vulnerability of Guam's textile industry to textile restraint measures will continue to impede the development of a viable industry which is currently dependent upon favorable U.S. textile provisions. Until these vulnerability issues are properly addressed, the current textile industry on Guam will continue to be subjected to such adverse legislative measures as those proposed in S. 680.

The island's only textile firm is a pioneering entity, Mr. Chairman, currently employing about 275 garment workers, with plans to implement substantial expansion projects. This type of industry lends positive benefits to Guam's economy.

Guam's reaction to the legislative measures introduced here is that they should be revised to reflect Guam's status as a U.S. flag territory and her population's status as U.S. citizens. We hope to gain treatment on a par with other U.S. subdivisions in trade matters and find it difficult to understand why Guam is treated as "foreign" for the purposes of this bill, with trade concessions inferior to those granted to Canada, the more developed European nations, and nations encompassed by the Caribbean Economic Recovery Act.

It is undeniable that trade policies intended for larger exporting countries clearly disrupts small-scale industries, and often times Guam is left without any recourse.

The United States insular possessions in the past were obviously in the need of a Pacific trade policy which should allow for flexibility and the opportunity to adjust accordingly to trade and market conditions. More specifically, a textile policy designed for United States insular possessions allowing for equitable treatment and specific trade advantages is needed. Granting such a policy may be the key to our effective and timely development.

Senate bill 680, Mr. Chairman, the effect of that on the U.S. Territory of Guam is catastrophic. It would kill Guam's only textile industry, Sigallo Pac, Inc., which employs, as I said earlier, 275 American employees.

Sigallo Pac, Inc., represents a light in the tunnel for the Guamanian people as far as manufacturing is concerned. Until Sigallo Pac, however, we were not able to do any manufacturing in Guam. Sigallo took that chance, investing millions of dollars and hiring local Guamanian Americans. It only took that chance because we were an American territory, and because of the favorable provisions of headnote 3A which permitted them to ship sweaters manufactured in Guam without quota or duty.

Mr. Chairman and members of this committee, please allow me to stress that we all stand to lose when Guam trade policies are adversely affected. There is an inherent desire of Guam's people to become a leading economic entity in the world's most active trade region.

Guam already serves as a strategic military presence in this region, and this, Mr. Chairman, symbolizes a stability envied by our neighbor countries. To weaken this posture through an adverse economic policy would not do justice to this great Nation of ours. I believe that the strong national defense policy is in part designed to protect the democratic and economic principles which guide our actions. It may appear to be ironic that certain provisions of S. 680 would place Guam in an uncompetitive position with respect to the economically aggressive nations that surround us.

The American presence is known in Guam, and to maintain this prestige we ask the committee to consider carefully any restrictive trade measures that would counter all that we have worked for in Guam.

May I close, Mr. Chairman, by saying that the people of Guam look upon the territory as both a staging area for national defense as well as trade. The concept of developing as America's gateway to Asia and the Pacific is one that the people of Guam would be honored to serve and protect.

By initiating policies that would strengthen Guam's economic base, the citizens in Guam can be less dependent upon federal subsidies provided. By ensuring Guamanians the right to jobs through economic diversification, the Congress can be fully confident that Guam will continue to grow as a gleaming example of free enterprise in a democratic society in the region. To achieve this, Mr. Chairman, I suggest and recommend that we look at Guam as America's asset with the nearest proximity to Asia and the Pacific.

Thank you for the opportunity to present testimony.

[Lieutenant Governor Reye's statement follows:]

TESTIMONY OF HON. RICARDO J. BORDALLO, GOVERNOR OF GUAM, PRESENTED BY HON. EDWARD D. REYES, LIEUTENANT GOVERNOR OF GUAM

Mr. Chairman and members of the Committee. On behalf of the people of Guam, I would like to express gratitude for the opportunity to testify before you today on S. 680.

Guam's textile industry was built on the premise of freely entering Guam textile products into U.S. markets, but this vital and advantageous concession now faces disruption as a result of U.S. textile import regulations that attempt to protect the jobs and earnings of U.S. citizens. While we try to provide an assessment of the direct impact of such legislation, it must be recognized that such impacts are difficult to measure because the protectionist measures regarding Guam's trade status have unfairly affected the proper development of Guam's infant industry so that existing conditions quite probably deviate widely from what they would be in the absence of inconsistent trade regulations. Nevertheless, in the restraint measures currently presented, the categorization of U.S. territories as "foreign" for purposes of these bills is clearly inappropriate and should be reassessed.

The contention of S. 1680 regarding the existing turmoil in the U.S. textile and apparel markets is indeed a reality: However, market conditions have spawned a growing concern among domestic textile manufacturers to request that Congress impose protectionist measures upon "foreign" manufacturers by controlling import levels, and further, by categorizing countries via current export levels. Guam, for purposes of this bill, is considered to be an exporting country. Realistically, this would be the ideal status as an island economy to achieve; however, given the nature of the textile industry and past experience, Guam can only hope that this august body will grant to it more liberal and equitable trade treatment for purposes of generally promoting the national and economic interest of the United States, as they apply to all of her citizens. The questions and concerns that remain lie with a positive and progressive treatment of Guam's developing trade potential, particularly for the only significant local manufacturing industry at present. The vulnerability of Guam's textile industry to U.S. textile restraint measures will continue to impede the development of a viable industry, which is currently dependent upon favorable U.S. textile provisions. Until these vulnerability issues are properly addressed, the current textile industry on Guam will continue to be subjected to such adverse legislative measures as those proposed in S. 1680.

The island's only textile firm is a pioneering entity, currently employing about 275 garment workers, with plans to implement substantial expansion projects. The first phase would require an additional 75-100 garment workers; the second phase involves a pilot program designed to manufacture other lines of apparel items, requiring an additional 100 garment workers. In terms of employment generation, a total of 500 garment workers would be required. Also, these expansion phases will require that an additional 111,000 square feet of factory space be added to the current plant size of 40,000 square feet. Further, equipment investment and plant fixtures will also be needed. Such investment considerations afford the opportunity for Guam to develop and utilize local resources to support an industry that can properly and independently operate of its own accord. This type of industry would lend positive benefits to Guam's economy.

Guam's initial reaction to the legislative measures introduced here is that they should be revised to reflect Guam's status as a U.S.-flag territory, and her population's status as U.S. citizens. We would hope to gain treatment on par with other U.S. subdivisions in trade matters, and find it difficult to understand why Guam is treated as foreign for purposes of the bill, with trade concessions inferior to those granted to Canada, the more developed European nations and nations encompassed by the Caribbean Economic Recovery Act.

It is clear that the U.S. textile and apparel industry will continue to impose restraint measures on imports to prevent further disruption of the U.S. textile and apparel markets. U.S. insular possessions have in the past been subjected to Federal constraints inappropriately applied and in many instances have served as trade laboratories that have been unfairly treated: for purposes of the bill Guam will not be an exception.

It seems clear that the U.S. Federal Government may choose to impose restrictive trade measures, in an attempt to prevent further disruption of the U.S. textile industry. Textile manufacturers engaged in U.S. textile trade are forced to reassess their options and adjust accordingly to the conditions imposed. At this stage, we find it to be very peculiar that foreign citizens in Canada, Europe and the Caribbean region are extended more favorable treatment by Congress than are U.S. citizens in the Pacific.

It is undeniable that trade policies intended for larger exporting countries clearly disrupt small-scale industries, and, oftentimes, Guam is left without any recourse. U.S. insular possessions as in the past, are obviously in need of a Pacific trade policy which should allow for flexibility and the opportunity to adjust accordingly to trade and market conditions: more specifically, a textile policy designed for U.S. insular possessions allowing for equitable treatment and specific trade advantages. Granting such a policy may be the key to our effective and timely development.

The effect of this legislation on the U.S. territory of Guam is catastrophic. It would kill Guam's only textile industry, Sigallo Pac, Inc., which employs more than 275 American employees. Sigallo Pac, Inc., represents a light in the tunnel to the Guamanian people. It was the very first garment manufacturing industry to take a chance on America's most distant territory in the Pacific. As proud Americans, we wanted and needed light manufacturing industries to provide employment and a diversified economic base. We cared not then, nor now for Federal doles. Until Sigallo, however, we were unsuccessful in doing so. Sigallo took that chance investing millions of dollars and hiring local Guamanian Americans. It only took that chance because we were an American territory and because of the favorable provisions of headnote 3a, which permitted them to ship sweaters manufactured in Guam without quota or duty.

Headnote 3A regulations specifically recognized Guam and the other insular possessions unique relationship to the U.S. In enacting general headnote 3A of the tariff schedules of the United States [TSUS], Congress recognized the need for special treatment for products of the insular possessions. The headnote 3A program was established to attract businesses to come to the insular possessions, thus creating jobs and revenue from local taxes. Congress knew that Guam's economy needed and deserved special consideration in view of its relationship to the U.S. pursuant to this tariff provision, specific country-of-origin rules were developed for products of the possessions. The country-of-origin rules defined by S. 680 repeal these special congressional rules.

Last year alone, Guam's only textile industry shipped 140,000 dozen sweaters to the U.S. If it were not for the implementation of the new country-of-origin rules, Sigallo Pac would have been able to ship 160,000 dozen sweaters. S. 680 and its House counterpart, H.R. 1562, would devastatingly reduce the number of sweaters that could be shipped to the U.S. The consequences being that Guam's only textile industry would be forced to close its doors, lay off its 275 employees, deprive Guam of a much needed source of revenue, and more importantly, dampen any other U.S. business notions of coming to do business in Guam.

Mr. Chairman and members of the committee, please allow me to stress that we all stand to lose when trade policies adversely affect Guam. There is an inherent desire of Guam's people to become a leading economic entity in the world's most active trade region. Guam already serves as a strategic military presence in the region and this, Mr. Chairman, symbolizes a stability envied by our neighbor countries. To weaken this posture through adverse economic policy would not do justice to this great nation of ours. I believe that the strong national defense policy is in part designed to protect the democratic and economic principles which guide our actions. It may appear to be ironic that certain provisions in S. 680 would place Guam in an uncompetitive position with respect to the aggressive counterpart nations that surround us. The American presence is known in Guam and to maintain this prestige, we ask the committee to consider carefully any restrictive trade measures that would counter all that we have worked for in Guam.

May I close, Mr. Chairman, by saying that the people of Guam look upon the territory as both a staging area for national defense as well as trade. The concept of developing as America's gateway to Asia and the Pacific is one that the people of Guam would be honored to serve and protect. By initiating policies that would strengthen Guam's economic base, the citizens in Guam can be less dependent upon Federal subsidies provided. By ensuring Guamanians the right to jobs through economic diversification, the Congress can be fully confident that Guam will continue to grow as a gleaming example of free enterprise in a democratic society in the region. To achieve this, Mr. Chairman, let us look at Guam as America's asset with the nearest proximity to Asia and the Pacific.

I thank you.

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ommonwealth of the
Northern Mariana Islands
ecretary

overnor George R. Ariyoshi
awaii
reasurer

RESOLUTION

TEXTILE and TRADE ENFORCEMENT ACT OF 1985

WHEREAS, H.R.1562 and S.680, known as the Textile and Trade Enforcement Act of 1985, place the territories of the United States within the definition of "foreign countries", and

WHEREAS, garment and apparel products of the United States Pacific territories will be placed under quotas as the products of foreign countries, and

WHEREAS, the proposed quotas will prevent any growth of the garment industry in the Territories of Guam and the Northern Mariana Islands and will prevent the foundation of any such industry in the Territory of American Samoa, and

WHEREAS, the garment industry in the Territories of Guam and the Northern Mariana Islands provides the people of the territories with employment opportunities and the governments with significant revenues, and

WHEREAS, the people of Guam are U.S. citizens, the people of the Northern Mariana Islands are interim U.S. citizens, and the people of American Samoa are U.S. nationals, and

WHEREAS, the people of the United States territories located in the Pacific are members of the American family, and

WHEREAS, it is basic to such a relationship that the American territories be able to trade freely with American states,

THEREFORE, BE IT RESOLVED by the Board of Directors of the Pacific Basin Development Council that the Governors of the American Pacific Islands are strongly opposed to the passage of either H.R. 1562 or S. 680 or any legislative effort which attempts to define American territories as foreign countries and exclude them from membership in the American family, and

RESOLUTION
August 23, 1985
Page 2

BE IT FURTHER RESOLVED that certified copies of this resolution be transmitted to the members of the Congressional committees which are now or may later undertake the review of these legislative bills.

APPROVED BY:

August 23, 1985

Date of Approval

RICARDO J. BORDALLO
President and
Governor of Guam

A.P. Lutali
A. P. LUTALI
Vice President and
Governor of American Samoa

WITNESSETH:

Jerry B. Norris
Executive Director

PEDRO P. TENORIO
Secretary and
Governor of the
N. Mariana Islands

Carolyn K. Imamura
Director of Planning
and Programs

GEORGE R. ARIYOSHI
Treasurer and
Governor of Hawaii

Senator **Danforth**. Thank you.

Senator Matsunaga.

Senator **Matsunaga**. Thank you, Mr. Chairman.

I am certain that people of Guam were shocked to be treated as a foreign country, and so were the people of the Northern Marianas. Since we haven't had any expressions from anyone from the Northern Marianas, how will the Northern Marianas be affected by this bill before us?

Mr. **Kosack**. Senator, the Northern Mariana Islands will be affected in the same devastating way that Guam is going to be affected. Our three companies, which we have, will end up shutting down, because the amount that will be allocated for the Northern Mariana Islands will be too small for an industry to flourish. And as a result, our unemployment, which is presently at 11 percent, will raise to 18 percent as a result of this bill.

For us, the garment industry means employment—that is the important benefit of that industry. This is our very first manufacturing industry in our small island. The island of Saipan is only 12 miles long and 4 miles wide—a very small population.

We are training our people to learn how to work in the manufacturing industry for the Job Training Partnership Act, and we have been very successful in placing a large number of local people into the manufacturing industry.

Our Government has mandated higher employment figures of local people on an escalating basis through the years. So it is a very significant employer at present, the second-largest employer in our economy, other than tourism. And for the future, it is basically where our future lies.

Senator **Matsunaga**. What about the concern expressed by proponents of the measure that the U.S. territories in the Pacific will serve as the site for transshipment of Asian products?

Mr. **Kosack**. This is a concern to us, as well. And as a result of that, the U.S. Customs Service sent two officers—for that and actually other purposes as well—in May of this year to the Northern Mariana Islands. They spent 1 week there. At the end of 1 week's stay, our Government asked them, "What could we do to tighten up our anti-transshipment enforcement procedures, under an ideal system?" They gave us ideas of inspecting every single garment panel that comes in, every box that comes in, comparing it with styles that have been approved, the rulings from Customs. We have gone ahead and adopted that. They were very surprised by that, because they felt that was an ideal type, that it was not cost-effective. The U.S. Customs themselves doesn't have that sort of enforcement.

But the industry is important enough to us that we want to show that we are going to take very strong action to prevent it.

We have also penalized it as well, by making it a criminal violation, which could result in 5 years' imprisonment, and administrative procedures for loss of quota for any manufacturer who is caught engaged in transshipment.

Senator **Matsunaga**. If I may ask one more question of Lieutenant Governor Waihee, Mr. Chairman?

Senator **Danforth**. Yes, Senator.

Senator **Matsunaga**. I am sure you agree with the intent of the bill, just as I do, that we ought to do whatever is possible to save American jobs.

Now, in your statement, you seem to express the view that by inclusion of Hawaii in the bill, that no American jobs would be saved on the mainland of the United States, but in fact, about 3,000 jobs would be lost in Hawaii. What is your rationale for that?

Lieutenant Governor **Waihee**. Well, essentially, Senator, that is what it is all about for us, and that is the protection of American jobs—and we are looking at Hawaiian-American jobs.

We have an industry which uses material that can only be gotten from the countries that would be affected by this bill. It began as the result of the importation of these materials.

So, it is a situation where an industry arose which did not arise as a result of substitution of foreign materials for domestic products, No. 1. Second, at the price of materials that we use, it is not conducive to be produced on the mainland United States. So, we find ourselves in the strange position of not being able to purchase these goods.

Senator **Matsunaga**. Have you made any effort to get similar products from mainland textile manufacturers?

Lieutenant Governor **Waihee**. The industry in Hawaii has attempted to do that; but for a number of reasons which make good economic sense, the industry in America, mainly because of the quantities involved in the garment industry in Hawaii—the quantities involved would be too small to make it economically feasible, really, for American mills to get into it in a realistic way.

Senator **Matsunaga**. I see I am exceeding my time, Mr. Chairman. Do you have any questions?

Senator **Danforth**. I don't have any questions.

Gentlemen, thank you both very much for your testimony.

Lieutenant Governor **Waihee**. Thank you very much, Mr. Chairman.

Mr. **Zschau**. Thank you.

Senator **Matsunaga**. Thank you for your indulgence, Mr. Chairman.

Senator **Danforth**. We have 16 witnesses to go, and I am going to have to leave, myself, in a bit. My hope is that another Senator will come to take over the chair.

I am going to ask the witnesses to please try to observe the time limit, and even beat it if possible.

Senator **Matsunaga**. Mr. Chairman, before we go to the next panel, I ask unanimous consent that the opening statement of Senator Pryor be included in the record in the appropriate place.

Senator **Danforth**. Thank you. Without objection.

The next panel: Mr. Kirk Rovinsky, president, Burk Manufacturing Co., Bossier City, LA; Mr. Norman Rubenstein, president, Paramount Cap Manufacturers Co., Bourbon, MO, on behalf of the Headwear Institute of America; Mr. James Hagale, president, Hagale Industries, Ozark, MO; and Mr. William Scheyer, North Bergen Piece Dye Works, North Bergen, NJ, on behalf of Silk & Rayon Printers and Dyers Association of America.

Gentlemen, if there is no objection on your part, we will proceed as your names appear on the witness list.

Mr. Rovinsky, would you go first?

Mr. Rovinsky. Sure.

STATEMENT OF KIRK ROVINSKY, PRESIDENT, BURK MANUFACTURING CO., INC., BOSSIER CITY, LA

Mr. Rovinsky. Thank you, Senator Danforth.

My name is Kirk Arthur Rovinsky; I am president of Burk Manufacturing Co, Inc. Burk Manufacturing is a privately owned manufacturer of outdoor clothing, officing in Bossier City, LA. We operate three manufacturing facilities and one distribution center currently employing 150 people. We possess employment capacity of 300 people. I am the third generation of family leadership since the company founding in 1926.

Mr. Chairman, it is my desire not to repeat statistics concerning garment comsumption and employment, previously mentioned in prior testimony.

Between 1981 and 1984, 1,610,000 American jobs were lost across various industries due to imports. This figure is sufficient.

Today, I hope to communicate the impact that no viable import legislation has on my firm and our local economy.

Burk manufacturing facilites are located in Magnolia, AR; Hope, AR; and Mansfield, LA, which are basically small towns between 4,000 and 8,000 people in rural trade areas. Ninety percent of our work force is female. Women of all races and national origin compose this work force. Although many males are employed in agricultural sectors, our facilities provide the only viable employment for females in these rural economies. Many of these women are single parents, heading households and supporting children.

Since 1973, imports have gained a consistently larger share of the domestic market. Consequently, a tremendous number of garment manufacturers in our local trade area have gone completely out of business. Results include high unemployment figures and an increased burden on welfare and other social service roles.

These companies are not closing due to an inefficient work force; my people are excellent. They provide an efficient day's work and only ask a reasonable day's pay. Our facilities are state of the art.

Garment plants close because of improper import legislation. A brief list of local garment plant closings during this decade in our local trade area is documented in the statement I have submitted.

Over 2,500 jobs were exported by these plant closings. Needless to say, thousand of companies across the Nation and hundreds of thousands of workers are also affected.

Prior to 1985, the AT&T assembly plant in Shreveport, LA, provided additional female employment opportunities. Now, with massive Shreveport and nationwide permanent cutbacks, this is no longer an alternative. High-technology industries has not arrived in these rural areas and will not be a presence in coming years. It is our responsibility to strengthen our basic industries. Senate bill 680 moves in the right direction.

From a national security standpoint, the Defense Personnel Support Center states its concerns over a shrinking textile and clothing industry. The industry's ability to outfit our forces in a state of emergency can be questioned. Burk Manufacturing Co., Inc., supplied the U.S. military for World War II and the Korean and Vietnam requirements. S. 680 will ensure our ability to respond in a crisis.

I am not here to cry about import competition. There are no secrets to importing, as any businessman may explore these avenues. However, Burk Manufacturing has not produced one garment overseas, out of commitment to our employees, our American suppliers, and our industry. My grandfather produced clothing in the United States for our U.S. markets; currently my brother and I are producing in the United States for our U.S. markets; hopefully, one day our children will produce clothing in the United States for our markets. Without S. 680, this is an improbability.

As you can see, Senator Danforth, I am not looking at short-term bottom-line profitability. Our desire is continuous modernization through implementation of state-of-the-art equipment. Without the elimination of the loopholes presently a problem in our current import legislation, we cannot continue to commit the capital necessary to do so. S. 680 will allow Burk Manufacturing and thousands of others to pursue these opportunities.

Retailers, importers, and domestic manufacturers are all in the same boat: we depend on a strong U.S. economy for survival. All segments can work together. S. 680 will promote fair and free entrance to U.S. markets while preserving the backbone of our economy: sufficient employment opportunity for all.

Please pass S. 680.

Senator Danforth, I appreciate the opportunity to express my views.

Sanator DANFORTH. Thank you, sir.

Mr. Rubenstein.

[Mr. Rovinsky's written testimony follows:]

STATEMENT By:

Kirk Arthur Rovinsky-

Statement Summary

I. Introduction

II. Description of Local Trade Area

III. Import Affect on Local Trade

IV. National Security Considerations

V. Outlook Considering S.680

Thank you Mr. Chairman, my name is Kirk Arthur Rovinsky; I am President of Burk Manufacturing Company, Incorporated. Burk Manufacturing is a privately owned manufacturer of Outdoor Utility clothing. Officing in Bossier City, Louisiana, we operate three manufacturing facilities and one distribution center currently employing 150 people. I am the third generation of family leadership since company founding in 1926.

Mr. Chairman, it is my desire not to repeat statistics concerning garment consumption and employment previously mentioned in prior testimony. Between 1981, and 1984, one million, six hundred and ten thousand American jobs were lost due to Imports. This figure is sufficient. Today I hope to communicate the impact no viable Import Legislation has on my firm, and our local economy. Burk Manufacturing Company facilities are located in Magnolia, Arkansas, Hope, Arkansas, and Mansfield, Louisiana, which are basically small towns in rural trade areas. 90% of our work force is female. Women of all races, and national origin compose this work force. Although many males are employed in Agricultural sectors in these rural economies, our facilities provide the only viable employment for females. Many of these women, are single parents heading households, and supporting children. In many two parent families, our employees are the sole income earners.

Since 1973, Imports have gained a consistently larger share of the domestic market. Consequently, a tremendous number of garment manufacturers in our local trade area have gone completely out of business. Results include high unemployment figures, and an increased burden on Welfare, and other Social Service rolls. These companies are not closing due to an inefficient work force. Our people are excellent. They provide an efficient days work, and only ask a reasonable days pay. Garment plants closed because of improper Import Legislation. A brief list of local garment plant closings during this decade in the Burk Manufacturing trade area is documented in this statement.

Over twenty five hundred jobs were exported by these plant closings. These plant closings are limited to a 150 mile radius of Bossier City, Louisiana. Needless to say, thousands of companies accross the nation are also affected. Prior to 1985 the AT & T assembly plant in Shreveport, Louisiana, provided additional female employment opportunities. Now, with massive Shreveport, and nationwide permanent cut-backs this is no longer an alternative. High Tech industries have not arrived in these rural areas, and will not be a presence in coming years. It is our responsibility to strengthen our basic industries. S.680 moves in the right direction.

From a national security standpoint, the Defense Personnel Support Center states its concerns over a shrinking Textile and Clothing Industry. The industry's ability to outfit our forces in a state of emergency can be questioned. Burk Manufacturing Company, Incorporated supplied the U.S. Military for World War II, Korean, and Vietnam requirements. S.680 will ensure our ability to respond in crisis.

I am not here to cry about Import competition. There are no secerets to Importing, as any businessman may explore these avenues. However, Burk Manufacturing has not produced one garment overseas out of commitment to our employees, our American suppliers and our industry. My grandfather produced clothing in the U.S.A. for our U.S.A. markets. My brother and I are producing clothing in the U.S.A., for our U.S.A. markets. Hopefully, one day our children will produce clothing in the U.S.A. for our U.S.A. markets. Without S.680, this is an improbability.

As you see Mr. Chairman, I am not looking at short term bottom line profitability. Unlike many large corporations, who have testified before you, Burk Manufacturing is committed to doing what is right. S.680 will allow Burk Manufacturing and thousands of others to pursue these opportunities.

Retailers, Importers, and Domestic manufacturers are all in the same boat. We depend on a strong U.S. economy for survival. All segments can work together. S.680 will promote fair and free entrance to U.S. Markets, while preserving the backbone of our economy; sufficient employment opportunity. Please Pass S.680.

Mr. Chairman, I appreciate the opportunity to express my views on behalf of Burk Manufacturing employees, our suppliers and industry. I commend your interest in these difficult problems. I will be pleased to answer any questions you may have.

GARMENT PLANT CLOSINGS-

ARKANSAS-

Magnolia, Arkansas
Hope, Arkansas
Junction City, Arkansas
Prescott, Arkansas
Stephens, Arkansas
Arkadelphia, Arkansas
Crosset, Arkansas
Hamburg, Arkansas

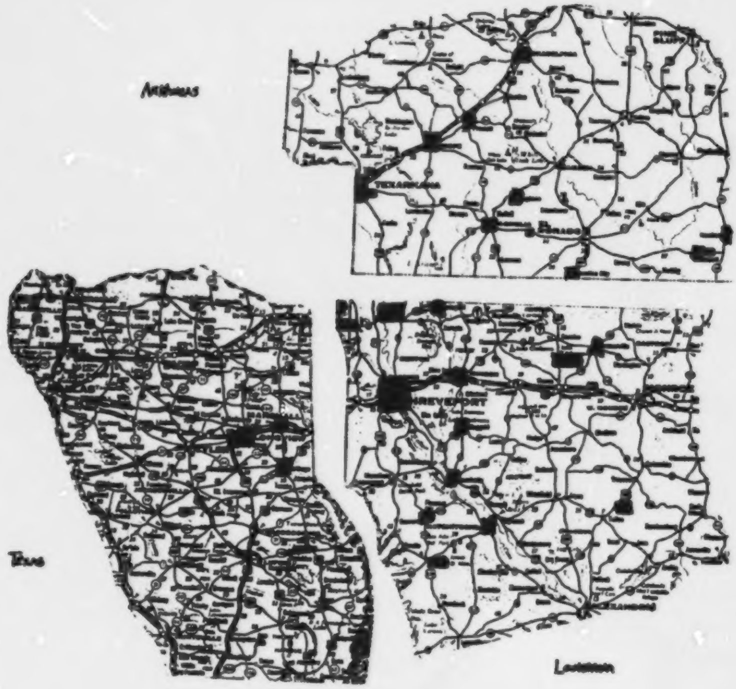
LOUISIANA

DuBach, La.
Plain Dealing, La.
Vivian, La.
Many, La.
Jonesville, La.
Port Barre, La.
Olla, La.
Shreveport, La.
Nachictoches, La.
Mansfield, La.
Ringold, La.
Farmerville, La.
Coushatta, La.
Pleasant Hill, La.

TEXAS

Marshall, Tx.
Kilgore, Tx.
Longview, Tx.
Carthage, Tx.

GARMENT PLANT CLOSINGS- Within a 150 mile radius of Shreveport.


Arkansas
TEXARKANA
Texas
SHREVEPORT
Louisiana

STATEMENT OF NORMAN RUBENSTEIN, PRESIDENT, PARAMOUNT CAP MANUFACTURERS CO., BOURBON, MO, ON BEHALF OF THE HEADWEAR INSTITUTE OF AMERICA

Mr. RUBENSTEIN. Like the gentlemen before me, we thank you for the opportunity to speak here.

My name is Norman Rubenstein. I am a director of the Headwear Institute of America and the president of Paramount Cap Manufacturing Co. of Bourbon, MO. We have been in business close to 60 years, and through that time have enjoyed a prosperous business, and our employees have been happy. We operate in rural Missouri, and our people are average working people who depend upon our industry, upon our business in many of the towns where we are the sole industry in three different counties in Missouri.

But recently we have had severe problems. The domestic headwear industry has attempted to work within the Multifiber Agreement to obtain proper relief from market disruption and in some cases illegal imports of headwear; but we have been extremely dissatisfied with the results obtained.

For this reason, the headwear industry is supporting the passage of the Textile and Apparel Trade Enforcement Act of 1985.

The industry's frustration with the current system is exemplified by current fraudulent imports of manmade fiber headwear from Taiwan and Korea. These people have been cheating, lying on their visa statements, and we think have stolen jobs from our employees.

For example, there is a dozen caps which everyone in the industry knows weighs close to 2 pounds. So they have been lying and cheating on their visa statements, and they have been shipping, reducing it to 1 pound per dozen, where they are sending in twice as many caps as they normally would.

Fortunately for the industry, the customs people in Seattle discovered this fraud and called it to the attention of CITA. But after 1½ years, little or no action was taken. And finally, at the behest of the industry, they decided to respond to this problem and to limit shipments to 750,000 pounds over a 3-year period. This 3-year period is insignificant, because it means nothing to the people from Taiwan.

I might add that that penalty was subjected only upon Taiwan; nothing was done about Korea. And here we are, 1½ years later, and nothing has been done about the fraudulent understatement of visa weights from Taiwan.

So far as the headwear is concerned, the MFA is not worth a damn.

Not only are they stealing our jobs, but in order to avoid the quotas that have been set up they are cutting goods in Taiwan and Korea, sending them to the Philippine Islands, and from the Philippine Islands in the last 4 or 5 years we have documentation to show that their imports of this product have increased 500 percent.

And now we are faced with monumental market disruption. The People's Republic of China is now sending goods in. Our warehouses are full of goods. Our customers' warehouses are full of goods. There is no bottom to the price. There is total disruption in the marketplace. And everyone in our industry is running scared.

Frankly, sir, after 60 years in business, for the first time in our history we are running scared, and we don't know what the future will hold for us.

We urge you and plead with you to pass this new bill to give us a chance to succeed in the future.

Thank you very much.

Senator DANFORTH. Thank you.

Mr. Hagale.

[Mr. Rubenstein's written testimony follows:]

HEADWEAR INSTITUTE OF AMERICA

ONE WEST 64th STREET
NEW YORK, NEW YORK 10023

(212) 724-0888

STATEMENT OF NORMAN RUBENSTEIN

Director
Headwear Insitute of America

and

President
Paramount Cap Manufacturing Compnay
Bourbon, Missouri

In support of
S. 680

Textile and Apparel Trade Enforcement Act of 1985

September 12, 1985

STATEMENT OF NORMAN RUBENSTEIN, DIRECTOR OF THE HEADWEAR INSTITUTE OF AMERICA AND PRESIDENT, PARAMOUNT CAP MANUFACTURING COMPANY

Summary

- The domestic headwear industry has attempted to work within the MFA to obtain proper relief from market-disrupting, and in some cases illegal, imports of headwear, but has been extremely dissatisfied with the results obtained under the Multi-Fiber Arrangement (MFA), as it is currently being enforced. For this reason, the domestic headwear industry is supporting the passage of the Textile and Apparel Trade Enforcement Act of 1985.

- The industry's frustration with the current system is exemplified by fraudulent imports of man-made fiber headwear from Taiwan and Korea. In early 1984, the U.S. Customs Service discovered that imports of man-made fiber headwear from Taiwan and Korea were entering the United States with understated visa weights, thus circumventing the existing quota levels.

- Customs halted this practice, but prior to its discovery such understating occurred in earlier years, resulting in substantial overshipments beyond legal quotas in these periods as well.

- Beginning in March 1984, the domestic headwear industry urged the Committee for the Implementation of Textile Agreements (CITA) to quantify the volume of overshipments of man-made fiber headwear from Korea and Taiwan which occurred in earlier years due to understating and to deduct this quantity from current quota levels. Such compensation for fraudulent shipments is called for under the terms of our bilateral agreements, which were negotiated under the auspices of the MFA.

- After a full year of repeated requests for response to this massive fraud, no action had yet been taken.

- It took one and one-half years after the initial discovery of this problem for the U.S. Government to respond. However, rather than charge the fraudulent shipments to the 1985 quota, the U.S. allowed Taiwan to allocate the total overshipments of 750,000 pounds over three years. The domestic headwear industry was outraged by this decision by the U.S. Government to stretch the "penalty" for Taiwan's overshipments over so many years, which is virtually painless for the Taiwanese and amounts to no penalty at all.

- To date, no action whatsoever has yet been taken by the U.S. Government with respect to Korea, which was just as guilty as Taiwan of understating visa weights on man-made fiber headwear.

STATEMENT OF NORMAN RUBENSTEIN, DIRECTOR OF THE HEADWEAR INSTITUTE OF AMERICA AND PRESIDENT, PARAMOUNT CAP MANUFACTURING COMPANY

My name is Norman Rubenstein. I am a member of the Board of Directors of the Headwear Institute of America, a trade association ofrepresenting domestic manufacturers of headwear, and the president of Paramount Cap Manufacturing Company, headquartered in Bourbon, Missouri. I am pleased to have the opportunity to testify before you today regarding the total dissatisfaction of the domestic headwear industry with the current administration of the Multi-Fiber Arrangement, which has prompted the industry's vigorous to support the passage of the Textile and Apparel Trade Enforcement Act of 1985. I would also like to call your attention to the joint written statement which has already been submitted to the Committee on behalf of the Headwear Institute of America and the Amalgamated Clothing and Textile Workers Union, AFL-CIO. The statement treats in more detail some of the concerns which I will address today.

The Multi-Fiber Arrangement and the bilateral agreements that the United States have negotiated under the MFA have been a miserable failure. They have failed to achieve their stated purpose -- the prevention of market disruption in the United States. The central reason for this failure has been the ineffective administration of the bilateral agreements, including the constant failure of the United States to avail itself of the actions plainly allowed for in the MFA and the bilateral agreements. The experience of the domestic headwear industry with surging headwear imports and massive fraud perpetrated by foreign suppliers provides a microcosm, in all aspects, of the failure of the MFA, as it is currently being administered and enforced.

In early 1984, the U.S. Customs Service discovered that man-made fiber headwear imports from Taiwan and Korea were entering the United States with understated visa weights, thus enabling the Taiwanese and the Koreans to enter hundreds of thousands more dozens of headwear than was properly allowed under the existing quotas, which are expressed in pounds. Following the discovery of this problem in early 1984, due to the diligent work of the U.S. Customs Service, man-made fiber headwear shipments from Taiwan and Korea with suspected understated visa weights were held up and not allowed to enter the United States until a proper visa weight was obtained from the foreign suppliers. Proper charges to quotas have reportedly been made since the time of the initial discovery of the understated visa weights.

Domestic headwear producers were concerned about the damage caused by this fraudulent practice in earlier years, which had resulted in the shipment of substantial quantities of imports of man-made fiber headwear from Taiwan and Korea well above the allowed quota levels in these earlier years. From March 1984 on, the domestic headwear producers and workers strongly and continually urged the Committee for the Implementation of Textile Agreements (CITA), which is the responsible government agency,[1] to quantify the volume of overshipments which occurred in earlier years due to understating and to deduct this quantity of illegal man-made fiber headwear imports from the current year's quota levels for Taiwan and Korea. Such a quota adjustment for fraudulent imports was not only called for under the terms of our bilateral agreements with Korea and Taiwan, but was the minimum action that should have been taken to maintain the integrity of the agreements and to discourage further fraud.

CITA reported in the Federal Register of May 9, 1985 that following consultations held with the Taiwanese in mid-April, and pending the results of further negotiations scheduled for May 20, the U.S. Government had decided to charge the calculated overshipments of 750,000 pounds to the current quota level for Taiwan, an action which the domestic industry had been recommending since the problem first became known. This poundage of overshipments, which undertakes the magnitude of the problem in our view, translates into 5.5 million pieces of headwear. In early June, the domestic industry was shocked to learn that at the May 20 negotiations, CITA had backed off its original decision to charge the 750,000 pounds of overshipped headwear to the current year, and instead caved in to the Taiwanese request

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[1] The Committee for the Implementation of Textile Agreements is an interagency body comprised of representatives from the Commerce Department, the Office of the United States Trade Representative, the State Department, the Labor Department, and the Treasury Department.

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to charge the illegal shipments in equal amounts of only 250,000 pounds in each of the next three years -- 1985, 1986, and 1987 -- virtually gutting the remedy originally decided upon.

The domestic industry was told by U.S. Government officials that one reason for the decision to spread the calculated quota reduction over three years was that the full charge of all illegal shipments to the 1985 quota would have caused problems and inconvenience to the Taiwanese. The domestic industry fails to accept that this inconvenience, no matter how great, has any relevance at all to a proper response to the years of systemic, fraudulent headwear shipments by the Taiwanese. The domestic industry, which was hurt by these illegal, fraudulent imports, was outraged by the final resolution of the problem with respect to Taiwan, particularly since the industry spent more than one year and an enormous amount of time and effort with the Executive Branch and on Capital Hill to have this matter looked into and resolved under the procedures available under the MFA.

To add insult to injury, it must be emphasized that no action whatsoever has ever been taken by the U.S. Government with respect to Korea, which was just as guilty as Taiwan of understating visa weights on man-made fiber headwear. Direct evidence of this understating by Korean producers is contained in a June 1984 telex from a major Korean headwear producer and exporter, which explicitly describes the quota shortages of approximately 35 percent then being faced by the Koreans due to the enforcement of proper visa weights by the U.S. Customs Service. (See Attachment A.) The domestic industry has repeatedly provided the U.S. Government with copies of this telex on several occasions, but to date, no action has been taken to adjust the Korean quotas for illegal overshipment of man-made fiber headwear in earlier years.

The outrage does not stop here. The events described above have not been occurring in a vacuum. While the domestic industry was waiting for the resolution of the problem of understated visa weights on man-made fiber headwear from Taiwan and Korea, these two countries were busy implementing additional ways of circumventing the man-made fiber headwear quotas.

For example, industry sources learned that in mid-1982, a new man-made fiber headwear operation was established in the Philippines; reportedly, all of the fabric and other raw materials are made available from Taiwan and are then assembled in the Philippines. In 1982, following the set-up of the new headwear operation supplied by the Taiwanese, imports from the Philippines rose by over 500 percent from the 1981 level and have risen in every year since that time. The domestic industry has requested that a separate quota be established on man-made fiber headwear from the Philippines in order to control this surge, and to prevent the Taiwanese from circumventing the quota on their shipments, but no results have been forthcoming.

Another means utilized by Taiwan and Korea to circumvent the restraints on man-made fiber headwear has been to change the fiber blend of the fabric in order to change the import classification from man-made fiber headwear to cotton headwear, which is not currently covered by quotas, resulting in a harmful surge of imports of cotton headwear. To make matters worse, the domestic industry has recently learned that much of the cotton headwear which has been entering from Korea and Taiwan is actually man-made fiber headwear which is being misclassified. If, as the domestic industry believes, this misclassification was rampant in earlier years prior to its discovery by the U.S. Customs Service in early 1985, then, like the understating of visa weights, this is another way in which the Taiwanese and the Koreans have managed to illegally ship man-made fiber headwear into the United States at levels well above those allowed by the mutually agreed-upon quotas determined by the bilateral agreements negotiated under the MFA.

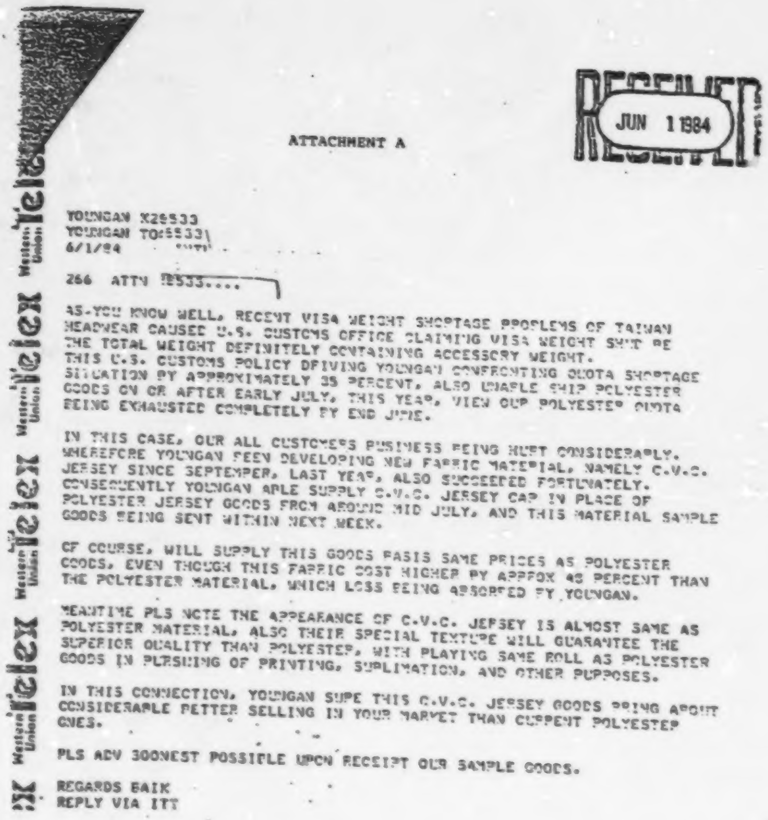
The disruption to the domestic industry caused by these various practices of the Taiwanese and Korean headwear manufacturers has been compounded by the emergence of the People's Republic of China (PRC) as a major supplier of headwear to the U.S. market in recent years. In 1984, the

PRC was the largest supplier of cotton headwear to the United States; furthermore, in 1984 and in the first quarter of 1985, the PRC was the fastest growing supplier of man-made fiber headwear to the United States. The rapid emergence of a new market player of this size has further intensified the market disruption already being caused by surging low-priced imports from Taiwan, Korea, and other suppliers.

Thus, the experience of the domestic headwear industry encapsulates all of the many reasons which have prompted the introduction of S. 680 and the massive support which it has gathered. The problem is exemplified by the problem of understated visa weights on man-made fiber headwear from Korea and Taiwan, where delay between discovery of the problem and action by the U.S. Government was unconscionably long and the final result has been a weak "penalty" which effectively rewards the Taiwanese exporters responsible for fraudulent, illegal headwear shipments. Furthermore, no action has yet been taken by the U.S. Government to adjust the quota on man-made fiber headwear imports from Korea for illegal shipments from that country.

Therefore, due to the ineffectiveness of the MFA in providing relief for the import problems confronted by the domestic headwear industry, such as those cited in this statement, the domestic headwear industry is strongly supporting the passage of the Textile and Apparel Trade

Enforcement Act of 1985. This legislation offers the only viable means of correcting the weak and ineffective administration and enforcement of the MFA. The passage of S. 680 is necessary to achieve the goals for which the MFA was designed.



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ATTACHMENT A

YOUNGAN X25533
YOUNGAN TO:5533
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266 ATTN 25533....

AS YOU KNOW WELL, RECENT VISA WEIGHT SHORTAGE PROBLEMS OF TAIWAN HEADWEAR CAUSED U.S. CUSTOMS OFFICE CLAIMING VISA WEIGHT SHMT BE THE TOTAL WEIGHT DEFINITELY CONTAINING ACCESSORY WEIGHT. THIS U.S. CUSTOMS POLICY DRIVING YOUNGAN CONFRONTING QUOTA SHORTAGE SITUATION BY APPROXIMATELY 35 PERCENT, ALSO UNABLE SHIP POLYESTER GOODS ON OR AFTER EARLY JULY, THIS YEAR, VIEW OUR POLYESTER QUOTA BEING EXHAUSTED COMPLETELY BY END JUNE.

IN THIS CASE, OUR ALL CUSTOMERS BUSINESS BEING HURT CONSIDERABLY. WHEREFORE YOUNGAN BEEN DEVELOPING NEW FABRIC MATERIAL, NAMELY C.V.C. JERSEY SINCE SEPTEMBER, LAST YEAR, ALSO SUCCEEDED FORTUNATELY. CONSEQUENTLY YOUNGAN ABLE SUPPLY C.V.C. JERSEY CAP IN PLACE OF POLYESTER JERSEY GOODS FROM AROUND MID JULY, AND THIS MATERIAL SAMPLE GOODS BEING SENT WITHIN NEXT WEEK.

OF COURSE, WILL SUPPLY THIS GOODS BASIS SAME PRICES AS POLYESTER GOODS, EVEN THOUGH THIS FABRIC COST HIGHER BY APPROX 40 PERCENT THAN THE POLYESTER MATERIAL, WHICH LOSS BEING ABSORBED BY YOUNGAN.

MEANTIME PLS NOTE THE APPEARANCE OF C.V.C. JERSEY IS ALMOST SAME AS POLYESTER MATERIAL, ALSO THEIR SPECIAL TEXTURE WILL GUARANTEE THE SUPERIOR QUALITY THAN POLYESTER, WITH PLAYING SAME ROLL AS POLYESTER GOODS IN PURSUING OF PRINTING, SUBLIMATION, AND OTHER PURPOSES.

IN THIS CONNECTION, YOUNGAN SURE THIS C.V.C. JERSEY GOODS BRING ABOUT CONSIDERABLE BETTER SELLING IN YOUR MARKET THAN CURRENT POLYESTER ONES.

PLS ADV SOONEST POSSIBLE UPON RECEIPT OUR SAMPLE GOODS.

REGARDS BAIK
REPLY VIA ITT

STATEMENT OF JAMES A. HAGALE, PRESIDENT, HAGALE INDUSTRIES, INC., OZARK, MO

Mr. **Hagale**. Mr. Chairman and members of the committee, I am Jim Hagale, president of Hagale Industries, and I am pleased to have the opportunity to represent our 1,100 coworkers in nine rural communities in the State of Missouri.

Our concern is that the United States is being reduced to a consumer nation. We imported a record $123 billion more in goods in 1984 than American industry was able to sell abroad. That figure takes on even more significance when you look at the rate of escalation of the trade deficit, which stood at just $40 billion in 1982 and is projected to reach between $160 billion and $180 billion in 1985.

Virtually every major industry is being affected by import penetration. The Commerce Department reflects a negative trade balance in 15 of the 20 major industries that they track. It is a trend that threatens the economy, the social fabric, and the security of the Nation. We are losing jobs, we discourage investment in capital goods and technology, we diminish our zeal for research and development, and we reduce our capability to manufacture products vitally necessary to the defensive posture of this country.

The international trading system is not functioning properly. Our Government has neglected it, while foreign countries have abused it.

As Americans, we have always been willing to share our resources, our technology, and our markets; but we are unwilling to give up access to our own developed economic environment.

The steel and automobile industries are very visible examples of the U.S. trade problems; yet, a much larger industry, the fiber, textile, and apparel complex, is now staggering under the weight of uncontrolled import penetration. Although already heavily impacted by imports, which captured 50 percent of the American market in 1984 compared with import penetration of only 25 percent in the steel and automobile industries, this vital industry still provides employment for more than 2 million Americans in 49 of the 50 States.

Between 1980 and 1984, textile and apparel imports increased at an average rate of 19 percent, displacing 300,000 American workers. The growth of the U.S. market for textile and apparel products during that same 4-year period was only 1 percent.

The combined wages in 1983 of the U.S. textile and apparel workers amounted to $24.6 billion. To allow these jobs and these incomes to be further eroded seems to ignore the impact on the lives and the communities where alternative job opportunities do not exist. The textile and apparel jobs are helping those who need help most in supporting their families and in trying to ensure that their children have a little better chance. Sixty-five percent of the workers in this industry are women, and 27 percent are minorities—highest percentage of any industry for these two groups.

The American textile and apparel industry is the most modern and productive of any in the world. Productivity has increased 4.2 percent in textiles and 3.9 percent in apparel in each of the years between 1974 and 1984. This compares with productive gains for all manufacturing of only 1.9 percent for the same period. In addition, wage-rate increases have been held to only 75 percent of the national average. Nevertheless, imports have continued to grow at an ever-increasing rate.

America is no longer the dominant giant, selling its goods to war torn and economically and technically inferior countries. Our Government can no longer hold on to the philosophically praiseworthy but terribly outdated commitment to free trade in a world where free trade is a myth.

Our Government's efforts to stop unfair trade practices have been embarrassingly ineffective. It is obvious that more decisive and specific action is necessary.

The American worker only seeks the opportunity to earn his own way and to leave for his children an environment filled with opportunities and incentives that has been the birthright of Americans for generations. The American worker, who is simultaneously the American taxpayer and the American consumer, is no longer interested in theoretical discussions of textbook economics; they seek practical solutions to very real problems.

Thank you.

Senator DANFORTH. Thank you, sir.

Mr. Scheyer.

[Mr. Hagale's written testimony follows:]

STATEMENT BY JAMES A. HAGALE, FOR HAGALE INDUSTRIES, INC.

I. U. S. has become a consumer nation.

A. Trade deficit amounted to $123 billion in 1984, compared to $40 billion in 1982, and projected at up to $180 billion in 1985.

B. Composition of imports has changed from primarily fuel and raw materials to manufactured goods.

C. Primary exports now are corn, soybeans and coal, primary imports are autos/trucks, electronics and apparel products.

D. Change in imports to manufactured items has resulted in loss of job opportunities.

II. Fiber, Textile and Apparel complex is now staggering under uncontrolled imports.

A. Imported apparel items = 50% of American market in 1984, compared to 25% in the highly affected steel and auto industries.

B. Textile and apparel industry provides 2,000,000 jobs directly.

C. Between 1980 and 1984, textile and apparel imports increased 19% annually, displacing 300,000 workers.

D. Textile and apparel imports account for 13% of trade deficit.

E. Textile and apparel workers = 65% women and 27% minorities.

F. Every producing country seeks to sell products in America.

G. Competition is primarily from Far Eastern countries with $1.00 per hour average earnings and as low as .16c.

III. Textile/Apparel Enforcement Act of 1985 designed to apply MFA import growth rates to major low wage Far Eastern producers who are shipping substantially above their appropriate level of imports.

A. Provide additional support which is required.

B. Evidence exists that increased imports result in higher profit margins not reduced prices for the consumer.

C. A continued trade deficit will further erode America's position in the world economy.

D. Need to provide American textile and apparel worker with opportunity to earn his own way and provide opportunities for his children.

IV. Congressional support of Senate Bill 680 is needed to demonstrate to the world that we are determined to defend our home markets and unwilling to deprive our workers of their right to earn a decent wage.

Mr. Chairman and Honorable Members of the Senate Subcommittee on
International Trade:

I am James A. Hagale, President of Hagale Industries, Inc., and I am appreciative of the opportunity to speak on behalf of the Textile/Apparel Trade Enforcement Act of 1985, Senate Bill 680.

The United States, once the merchandiser to the world, is being reduced to a consumer nation. We imported a record $123 billion more in goods in 1984 than American industry was able to sell abroad. Not only is this a staggering figure when taken alone, it takes on even more significance when you consider the rate of escalation of our trade deficit which stood at just $40 billion in 1982 and is projected to reach between $160 and $180 billion in 1985. In addition, the nature of our trade deficit has changed dramatically in its composition. In the 1970's, we were importing primarily fuel and raw materials with the trend almost totally reversing by 1984 when 72% of the deficit was manufactured goods. Virtually every major industry is being affected by imports. The Commerce Department reflects a negative trade balance in 15 of 20 major industries that they follow. In 1984, the three major imports into the United States were automobiles, trucks and electronic products, the three major exports were corn, soybeans and coal. This scenario is the classic definition of a colonial economy. An economy that exports raw materials and agricultural products and imports manufactured goods. It is certainly not the description of the kind of economy we envision ourselves to have as the dominate industrial power of the world. It is a trend that threatens the economy, the social fabric and security of the nation, as we lose job opportunities, discourage investment in capital goods and technology, diminish our zeal for research and development and reduce our capability to manufacture products vitally important to the defensive posture of our country.

The International trading system is not functioning properly. Our government has neglected it, while other countries have abused it. We cannot afford as a country nor can the rest of the free world afford to see the trading system destroyed but, to be effective, the system must be creditable and it can only be creditable if we enforce existing trade agreements and defend our trading rights. As Americans, we have always been willing to share our resources, technology and markets but we are unwilling to give up access to our own developed economic environment.

Government cannot be expected to solve every problem but it can put emphasis on a fair and equitable trade policy and give American producers and workers a fair chance. The steel and automobile industries are highly visable examples of the United States trade problems. Yet a much larger industry, the fiber, textile and apparel complex, is now staggering under the weight of uncontrolled import penetration. Although already heavily impacted by imports which captured 50% of the American market in 198 compared with import penetration of only 25% in the steel and automobile industry, this vital industry still provides employment for more than two million Americans in 48 of the 50 states. One out of every ten manufacturing jobs is a textile/apparel created job. More people depend upon the textile/apparel industry for their livelihood than the steel and automobile industries combined.

Between 1980 and 1984, textile and apparel imports increased at an average rate of 19%, displacing 300,000 American workers. The growth of the U. S. market for textile and apparel products during that same four year period increased at an average rate of one percent. In 1984, imports rose by 32% over the 25% increase registered in 1983. We now have a textile/apparel trade deficit of $16.5 billion or 13% of the record $123 billion trade deficit for 1984. The textile industry alone accounts for $45 billion of our Gross National Product, more than basic metals, more than automobiles, more than petroleum, refining or aerospace. It is not too late! The battered textile and apparel industry is still a viable and vital segment of our manufacturing base. We are not just talking about the two million jobs directly related to the textile and apparel industry nor are we talking about the other two million jobs in support and allied industries. We are talking about people, we are talking about families, we are talking about small towns and inter-city areas all over America whose economic well being and family structures depend on textile and apparel jobs. The combined wages in 1983 of the U. S. textile and apparel workers amounted to $24.6 billion. To allow these jobs and these incomes to be eroded further is to ignore the impact on the lives and the communities where alternative job opportunities do not exist. These people are entitled to maintain their dignity and pride and their faith in the American system that has always allowed us to pay our own way. The textile and apparel jobs are helping those who need help most in supporting their families and in trying to insure that their children have a little better chance, 65% of the workers in this industry are women and 27% are minorities, the highest percentage of any industry for these groups. The employment level in 1973 was 2,448,000 and in 1984 had declined to 1,955,000, a loss of 20% of the industry work force.

Why has the import penetration been so dramatic in the textile and apparel industry? And, why does the trend seem unlikely to change without some kind of trade legislation to reverse it? The answers to these questions are probably as varied as the number of problems themselves. The textile and apparel industry is considered basic to all nations. Every developing country looks very early to the building of the textile and apparel industry as being in its national interest. Initial capital requirements in apparel manufacturing and to a lessor degree in textile manufacturing are relatively lower than in other industries giving developing countries easier and quicker access to a consumer market. The industry is very labor intense and, consequently, puts a large number of people into the mainstream of a developing economy. These factors make the industry particularily appealing to countries with scarce capital and abundant cheap labor. Production is managed politically to take advantage of the United States market in order to maintain employment, to acquire U. S. currency and to achieve a more favorable balance of trade. It is time for us to face the realities of trading with countries that have non-market economies. Every producing country in the world seeks to sell its products in the United States because America has the most viable consumer base in the world. For these reasons, many foreign governments have used any means necessary to maintain high exports at any cost. These means are characterized by a host of direct and indirect government subsidies, high import tariffs, import quotas and outright import prohibitions. The domestic industry cannot nor should it be expected to compete with foreign industry subsidized by their governments. By allowing big American business to import from countries with desperately low wages, we are taking job opportunities from Americans without creating a consumer in that trading country capable of buying any American products because of the inherent low wage structure. American workers should not be expected to compete with wage rates that fall far short of American standards and government regulated minimum wage laws. Average hourly wages in East Asia are $1.00 per hour and as low as .16¢ in China.

The foreign textile and apparel industry further operates free of the health and environmental and other governmental regulations we believe essential to the protection of our own workers and environment, further lessening their relative cost of production. Management and labor have made every effort to modernize and compete. The American textile and apparel industry is the most modern and productive of any in the world. Productivity has increased 4.2% in textiles and 3.9% in apparel in each of the years between 1974 and 1984. This compares with productive gains for all manufacturing of 1.9% for the same period. In addition, wage rate increases have been held to only 75% of the national average. Never-the-less, imports have continued to grow at an ever increasing rate.

In the post World War II period, the free world developed a vehicle known as General Agreement of Tariffs and Trades (GATT) to promote trade and help developing countries strengthen their economies. GATT was created in a climate marked by American supremacy in the world economy and the U. S. policy of lending a helping hand to less developed nations. World conditions have changed dramatically since that time, America is no longer the dominate giant selling its goods to war torn and economically and technically inferior countries. The United States experienced a 30 year period, after World War II, of economic expansion unmatched in any prior period of history. Our government can no longer hold on to the philosophically praise-worthy, but terribly out-dated, commitment to free trade in a world where free trade is a myth. The reality is a world where managed trade is necessary as foreign countries continue to circumvent existing trade laws, flooding imports into the U. S., idoling factories and depriving American workers of incentive, opportunity and self-esteem.

In 1973 the first Multi-Fiber Arrangement (MFA) was designed to provide orderly growth of trade and increase the market share for developing countries. The MFA was agreed to by the major GATT members. Since then, the MFA was extended in 1977 and 1981. The MFA contemplated a six percent annual growth rate for imports for most exporting countries and provided for a lower rate of growth for imports from major exporting countries. Since 1980, the objectives of the MFA have not been achieved as evidenced in my previous comment of the annual 19% increase of imports during that period. The disruptive serge in imports of textile and apparel products which occurred from 1981 through 1984 resulted from the failure of the United States to enforce adequately its rights under the agreement. The other major textile and apparel producing countries have enforced their rights, maintained their domestic industries and improved their employment levels. We owe no less to our American workers. Despite the best intentions of MFA, an orderly market has failed to materialize. The Textile/Apparel Trade Enforcement Act of 1985 is designed to apply MFA import growth rates to major low wage far eastern producers who are shipping substantially above their appropriate level of imports to the United States. It would allow less developed countries to further develop their industry through increased imports to the United States. Our governments efforts to stop unfair trade practices have been embarrassingly ineffective, it is obvious that more decisive and specific action is necessary.

It has been argued that the textile/apparel industry is already one of the most protected in the United States. If, in fact, this were true, taking into account all of the agreements that are in place, how could imports of these products increase by 32% in 1984 following a 25% increase in 1983 allowing imports to capture 50% of the American market? This indicates weak trade agreements, poor enforcement or both. It has been further argued that American business should take advantage of the lower wage base in other countries and retrain our workers for better jobs. It is difficult to conceive of an effective retraining program that would provide better jobs when it is a matter of government documentation that 15 of our 20 major industries are impacted by foreign competition. The only growth industries are in the service sector where wages are generally lower than those in the manufacturing sector and seldom exceed the guaranteed minimum wage. This rationale requires the American worker, in the best case, to trade down and, in the worst case, to be unemployed. Either alternative leaves him with reduced consumer ability. We would, thereby, be importing a lower standard of living for the American worker. The strong dollar has been blamed as the prime culprit of the rapid escalation of imports. The strong dollar has only made imports more profitable for importers. There has been no apparent reductions in price points of imported products. (See illustration #1) The long term trend is toward increasing import penetration, with or without a strong dollar, because the underlying need of foreign countries to ship products to the United States market is not tied to the value of our dollar. It is not the high value of the dollar that is causing our import problems but the low value that has been placed on an effective trade policy by the United States. We have stood idly by while the other developing and developed nations of the world have given trade top priority in an effort to establish and maintain an industrial base and maximize employment for their people. The fear that foreign countries would retaliate if we were to establish controls to provide an orderly market seems to ignore the reality that those same foreign countries are already protecting their industries, setting limits on imports and providing whatever politically motivated incentives are necessary to gain market dominance. Tying import growth more closely to the growth of the domestic market will not have a significant affect on consumer prices of apparel products. There is considerable evidence that any savings on imported goods merely results in higher profit margins for imports not reduced prices for the consumer. (See illustration 2 and 3) Apparel prices, as reflected in the consumer price index of December, 1984, reflect the most restrained prices of any major consumer category.

CONSUMER PRICES
Dec. 1984, Index 1967=100

Apparel	185.9
Food	305.1
Transportation	315.8
Housing	341.2
All Items	315.3

The consumer has been the beneficiary of heavy capital investment by the industries, the genuine growth of productivity and wage restraints by textile and apparel workers as reflected by the 1984 hourly wages in the textile industry of $6.57 and in the apparel industry of $5.65, compared with average wages of all manufacturing jobs of $9.40. It cannot be said that textile and apparel management or workers have taken advantage of the American consumer in any way. In fact, they have done more to preserve the purchasing power of the consumer than any other component of basic need.

The enormous trade deficit is devastating the American economy and, if allowed to continue unchecked, will further erode America's position of leadership in the world economy. The American worker only seeks the opportunity to earn his own way and to leave for his children an environment filled with opportunities and incentive that has been the birth right of Americans for generations. The American worker who is simultaneously the American tax payer and the American consumer is no longer interested in theoretical discussion of text book economics. They seek practical solutions to very real problems. It is increasingly difficult for the average American who is working for hourly wages, having his taxes withheld from every pay check, to see his job and that of his friends be eroded by his governments inability to establish a viable trade policy. At the same time he sees big business and big government increasingly insensitive and apparently disregarding the long term consequences of our present course. We seek spirited and overwhelming congressional support for Senate Bill 680 that will demonstrate to the world that we are determined to defend our home markets and that we are unwilling to deprive our workers of their right to earn a decent American wage.

Exhibit 1

MEN'S OUTERWEAR

Average Price at Retail	1982	1983	1984
Slacks-Imported	$20.04	$18.13	$18.12
-Domestic	$18.00	$18.55	$18.07
Jeans-Imported	$14.71	$14.37	$15.48
-Domestic	$15.25	$15.52	$15.58
Dress Shirts-Imported	$11.17	$10.92	$11.65
-Domestic	$12.64	$13.34	$13.67
Sport Shirts-Imported	$10.10	$10.42	$10.80
-Domestic	$11.82	$11.57	$12.00
Knit Sport Tops-Imported	$10.43	$11.41	$10.41
-Domestic	$ 6.99	$ 7.62	$ 7.86
Traditional Suits-Imported	$130.51	$129.94	$129.01
-Domestic	$121.57	$132.18	$133.98
Sport Coats-Imported	$69.53	$63.71	$61.90
-Domestic	$73.38	$80.07	$80.36

WOMEN'S OUTERWEAR

Average Price at Retail	1982	1983	1984
Slacks-Imported	$16.27	$16.22	$16.51
-Domestic	$14.43	$14.21	$14.02
Jeans-Imported	$16.28	$16.96	$16.81
-Domestic	$17.96	$17.93	$17.43
Blouse/Shirts-Imported	$11.11	$12.36	$12.71
-Domestic	$13.25	$13.15	$12.64
Woven PTOT*-Imported	$ 7.40	$ 8.32	$ 9.00
-Domestic	$ 8.57	$ 9.07	$ 9.37
Knit PTOT*-Imported	$ 7.57	$ 8.32	$ 8.27
-Domestic	$ 8.50	$ 9.12	$ 8.56
Skirts-Imported	$15.88	$18.22	$18.02
-Domestic	$17.45	$17.47	$17.01
Dresses-Imported	$26.80	$30.71	$31.49
-Domestic	$28.53	$28.77	$29.18
Suits-Imported	$65.04	$76.64	$61.54
-Domestic	$65.89	$66.98	$62.29
Blazers & Jackets-Imported	$29.25	$29.48	$27.05
-Domestic	$32.65	$34.78	$32.14

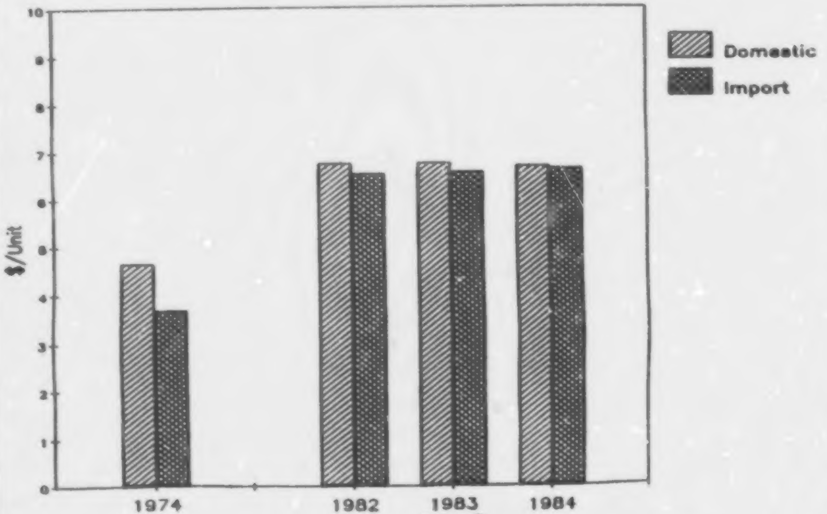
*PTOT-POLO,Tank, & Other Tops

SOURCE: Derived from Market Research Corporation of America Consumer diary data. 1984 Survey

Exhibit 2

Source: Marketing Research
Corporation of America
(Consumer Daily Report)

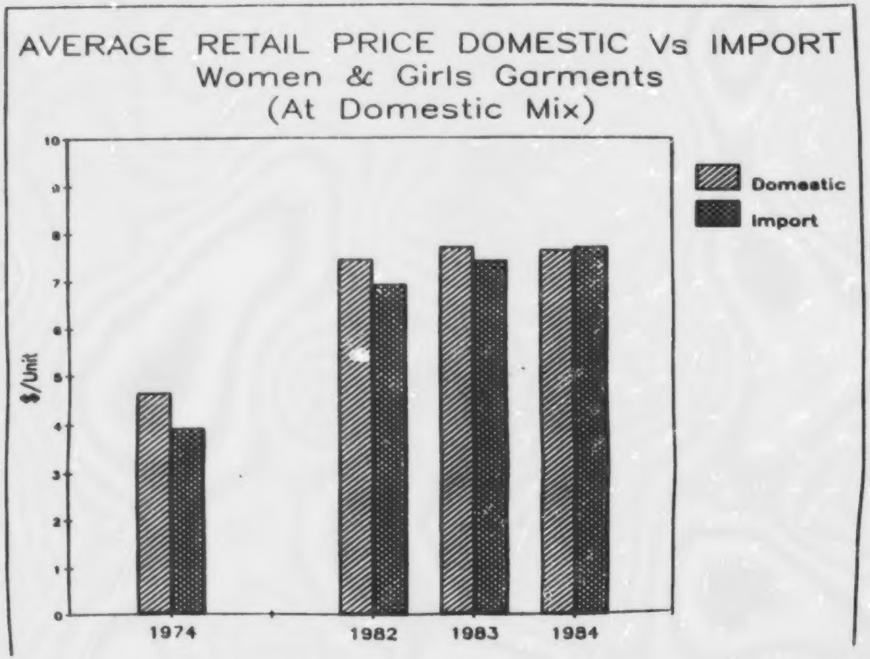
AVERAGE RETAIL PRICE DOMESTIC Vs IMPORT
Men & Boys Garments
(At Domestic Mix)



760

Exhibit 3

Source: Marketing Research
Corporation of America
(Consumer Daily Report)



AVERAGE RETAIL PRICE DOMESTIC Vs IMPORT
Women & Girls Garments
(At Domestic Mix)

STATEMENT OF WILLIAM E. SCHEYER, TREASURER, NORTH BERGEN PIECE DYE WORKS, INC., NORTH BERGEN, NJ, ON BEHALF OF SILK & RAYON PRINTERS & DYERS ASSOCIATION OF AMERICA, WAYNE, NJ

Mr. SCHEYER. Senator Danforth, Senator Matsunaga, I am William Scheyer, and I represent my own company, North Bergen Piece Dye Works; Silk & Rayon Printers & Dyers Association of America, an employer association; and the Hudson County Chamber of Commerce and Industry, Small Business Council Committee.

My company and the other members of the association, as well as various members of the Chamber of Commerce are engaged in the processing of textiles. And I wish to thank you for appearing here today.

We in the domestic textile industry are competing against governmentally subsidized companies in foreign lands who not only have the benefit of lower labor costs but are also not required to comply with costly governmental regulations such as those mandated by OSHA, EPA, et cetera.

To illustrate the impact of textile imports on the textile economy of New Jersey, I will use my own company as an example.

My company is one of the oldest textile companies in New Jersey, established by my father in 1937. By the mid-fifties the entire plant had been modernized in order to lower the per-unit cost of production. During that time, our Government was displaying to our new friends from Japan the new technology and advances being employed by American industry, in an effort to assist in the post-war rebuilding of the Japanese economy.

As a child, I can remember Japanese businessmen touring our plant and observing how we operated our business.

By the 1960's we began to receive Japanese fabrics to be processed in our plant. At first, those fabrics were of poor quality in comparison to American fabrics; however, by 1970 the Japanese fabrics were clearly superior to the fabrics made in America. In about 1973, finished textile products began to be imported into America on a steadily increasing basis. By that year my family's plant, as well as virtually all textile plants in northern New Jersey had been modernized and offered a diversity of processes never before readily available in the industry. However, with the ever-increasing amount of imported textile products ready for the marketplace, our plants' orders began to fall drastically despite our continuing modernization efforts, and by 1984, production orders had fallen to their lowest point since 1958. The decrease has continued this year.

Throughout all this time, everything our Government asked of us we did. We installed pollution equipment, we cut energy consumption, we modified our machines to provide for greater workplace safety, and perhaps most importantly, we continued to employ members of the American work force. Yet, now, when we need something from our Government, it has failed us by inaction.

Annexed to my written testimony, as appendices A and B, are statistics illustrating the steady decline of goods shipped by my family's plant, the decline in employment in our industry, and the continuing plant closing, all of which are attributable to the increase in imported textiles.

Mr. Chairman, the people I represent do not intend to espouse protectionism as a means to curb imports. We understand that America needs free international trade; but, just as all free societies are governed by laws and regulations enacted for the purpose of maintaining orderly interactions amongst their peoples, so it must be with international trade.

We understand that the Department of Defense needs military bases throughout the world, and the State Department must commit the United States to trade agreements where those countries have our military bases located in them; furthermore, we recognize that in developing nations it is in the best interest of the United States to demonstrate the benefits of free enterprise and free trade; however, the price tag affixed to foreign imports must not mean the death of basic and essential industries at home.

Undoubtedly, there will be people testifying before you that will argue that imports create jobs in the retail portion of our economy and that the people of America either want or can only afford lower-priced textiles and textile products. If these agreements are advanced, I submit the question which you should ask is: Are the profits of those making such arguments greater when they use imported textiles as opposed to domestic textiles?

Senator DANFORTH. If you could wrap it up, we will submit the whole statement for the record, and I assure you that it will get very careful attention.

Could you just, in a sentence or so, finish your thought?

Mr. SCHEYER. All right.

Senator Danforth, I therefore recommend that you enact S. 680 into law without delay, and let the word go out from this subcommittee that America will no longer permit the decay of her basic and essential industries at home, and that the continued life of the American workers and American industries is more important than the continued growth of the profits of the few who benefit from imported textiles and textile products.

[Mr. Scheyer's written testimony follows:]

TESTIMONY BY WILLIAM E. SCHEYER
REPRESENTING:

SILK AND RAYON PRINTERS AND DYERS
ASSOCIATION OF AMERICA, INC.
-
HUDSON COUNTY CHAMBER OF COMMERCE AND INDUSTRY
SMALL BUSINESS COUNCIL COMMITTEE
-
NORTH BERGEN PIECE DYE WORKS, INC.

BEFORE THE UNITED STATES SENATE
SENATE FINANCE COMMITTEE
INTERNATIONAL TRADE SUBCOMMITTEE
WASHINGTON, D.C.
SEPTEMBER 12, 1985

SUMMARY OF TESTIMONY
OF
WILLIAM E. SCHEYER

Representing:	(1) North Bergen Piece Dye Works, Inc. (Family Business). (2) Silk and Rayon Printers and Dyers Association, Inc. ("SRPDA", an employer association: 54 plants,2340 employees) (3) Hudson County Chamber of Commerce and Industry, Small Business Committee.
Testimony:	American textile technology given to foreign countries is now being used to crush the domestic textile industry. Those advocating the continued unfettered importing of textiles and textile products are advancing their own financial interests and are foresaking the American labor force and American industry. Number of yards of textiles processed and shipped by family business has declined steadily since 1973. Number of employees employed by members of SRPDA has decreased drastically from 1969 to date. Ninety-nine (99) out of One hundred fifty-three (153) SRPDA member plants have closed since 1969.

TESTIMONY

Chairman, Senator Danforth, and others members of Senate International Trade Subcommittee: My name is William E. Scheyer, and I am representing my own company, North Bergen Piece Dye Works, Inc.; Silk and Rayon Printers and Dyers Association of America, Inc., an employer association; and the Hudson County Chamber of Commerce and Industry, Small Business Council Committee. All of these entities are located in the State of New Jersey.

My company and the other members of the Silk and Rayon Printers and Dyers Association of America, which I will hereinafter refer to as the "Association", are processors of textiles. Various members of the Hudson County Chamber of Commerce, which I will hereinafter refer to as the "Chamber of Commerce" are also engaged in the processing of textiles. Our businesses are service oriented, processing raw textiles into finished products ready to be manufactured into garments and/or home furnishings. Some of the members of the Chamber of Commerce are embroiderers and garment manufacturers producing products directly for the marketplace. We are all small businesses as defined by the Small Business Administration.

I wish to thank you for the opportunity to appear here today. Hopefully, what I have to say will influence you in your deliberations on S. 680, the "Textile and Apparel Trade Enforcement Act of 1985".

Modern social, economic and international developments are putting American businessmen into the most competitive environment of this century. We in the domestic textile industry are competing against governmentally subsidised companies in foreign lands who not only have the benefit of lower labor costs, but are also not required to comply with costly governmental regulations such as those mandated by OSHA, EPA, etc. On the other hand, our Government and our society requires the domestic textile industry to conduct its business in a manner so as to provide the highest standard of living ever to exist on earth.

The fact that the American "smoke stack economy" has fallen victim to foreign competition is no secret. Senator William Bradley of N.J., in his speech at a luncheon during October of 1982, said America must realign its economy from that of heavy manufacturing to that of high technology and service. I am sure the learned Senator is aware of the fact that only because our forefathers began the manufacturing of essential goods in America, following the revolutionary war with England, did our infant country grow into the great nation it is today. Our forefathers knew that if America remained dependent upon foreign suppliers for essential products, America would not survive for long.

Domestically produced essential products are America's key to continued freedom from control by foreign interests. Certainly, the clothes we wear on our backs must be considered as essential products.

The current trend of dramatically increasing imports of textiles and textile products has shown a willingness on the part of some people to risk our independence for the quick buck; or a quick fix for inflation. Imagine if you will, the long term effect of the present trends. Our domestic textile industry will continue to shrink until it is only a skeleton of the great industry it once was, and consumers will become more and more dependent upon imports for the clothes on their backs. If an international crisis should develop, or an embargo should be used against America, the prices of the now cheap imported textile products will sky rocket, just as did oil prices when the Arab nations imposed the oil embargo in 1973.

I ask you is it worth the price of today's quick fix for inflation, or the quick buck made by relatively few businessmen, to risk such consequences. Two hundred years ago our forefathers said No and today I say No.!

We can no longer stand the decay of America's "smoke stack economy". If we do, we will become dependent upon foreign interests and we will lose our independence. America has already lost much of its consumer electronics industry, our shoe industry, our ship building industry, and steel industry to name only a few. It is now time to stop the decay of America as a producer of goods.

To illustrate the impact of textile imports on the textile economy of New Jersey, I will use the history of my own company as an example. My company is one of the oldest textile companies in New Jersey, established in 1937 by my father. During the years between 1937 and 1942, he struggled to keep the company alive, the effects of the great depression still being felt across America. During World War II, government contracts provided the shot in the arm necessary to get the economy rolling once again. When our company began to be profitable,, those profits were reinvested in our business to modernize the plant.

By the mid-fifties, the entire plant had been rebuilt. Old, insufficient methods of producing our product were discarded and replaced with new continuous methods of production designed to lower the unit cost of production. During that time, our Government was displaying to our "new" friends from Japan, the new technology and advances being employed by American industry, in an effort to assist in the rebuilding of the post-war Japanese economy. As a child, I can remember my father escorting many Japanese businessmen through our plant, explaining to them how we operated.

By the time the sixties came along, we began receiving fabric woven in Japan to be processed in our plant. At first, the fabrics were of poor quality and the Japanese workmanship was a "joke" in comparison to American fabrics. However, by 1970, the Japanese fabrics were clearly superior to American made fabrics. The only advantage maintained by American textile producers was the fact that relatively few fabrics were made in Japan.

In or about 1973, finished textile products began to be imported into America on a steadily increasing basis. By that year, my family's plant as well as virtually all textile plants owned and operated by members of the Association and the Chamber of Commerce, had been modernized, and offered a diversity of processes never before readily available in the industry. Our plant had increased production capability by approximatey 60% over the production rates of the early sixties in an effort to keep the per unit costs to a minimum. However, with the ever increasing amount of imported textile products ready for the marketplace, our plant's orders began to fall drastically, despite our continuing modernization efforts. By 1984, production orders had fallen to their lowest point since 1958 and the decrease has continued this year.

Throughout all this time, everything our government asked of us, we did: we installed pollution equipment; we cut energy costs and consumption when energy became short; and we modified our machines to provide for greater workplace safety. Furthermore, and perhaps most importantly, we continued to employ members of the American workforce. Yet, now, when we need something from our government, it has failed us by inaction.

Today, our industry is left with small, difficult orders, while the foreigners get the high volume, profitable work. Can you imagine how difficult it is to run a modern plant when the only orders received are either leftovers or unwanted orders?

Annexed to my written testimony as Appendix A are statistics illustrating the decline in the volume of goods shipped by my family's plant since 1958. In addition, I have annexed as Appendix B, statistics illustrating the steady decline in the number of employers and employees in our industry, in the New York Metropolitan Area, during the years 1969 through 1985. As you can see from these figures, the increase in imported textiles and textile produts has had a disastrous effect on employment within our association. Employment statistics for the Chamber of Commerce members would likewise show this drastic decrease.

Mr. Chairman, the people I represent do not intend to espouse protectionism as a means to curb imports. We live in the real world; we understand that America needs free internatonal trade. But, just as all free societies are governed by laws and regulations enacted for the purpose of maintaining orderly interactions amoung their people, so it must be with international trade.

Presently, certain foreign countries restrict their imports of American made products while simultaneously flooding America with their textile products. This simply cannot be allowed to continue any longer.

We understand that the Department of Defense needs military bases throughout the world and the State Department must commit the United States to trade agreements with those countries where military bases are located. Furthermore, we recognize that in developing nations, it is in the best interests of the United States to show the people the benefits of free enterprise and free trade. Moreover, we know that the textile and apparel industry can provide a great number of jobs to unskilled workers in developing nations in a relatively short period of time. However, the price tag affixed to foreign imports must not mean the death of basic and essential industries at home.

There are in existence laws, regulations, treaties, pacts, arrangements, etc., to protect our domestic textile industry. Yet, these enactments are not being enforced. This lack of enforcement must stop immediately if our industry is to survive.

Undoubtedly, there will be people testifying before you that will argue that imports create jobs in the retail portion of our economy; that the people of America want lower priced textiles and textile products; and that the people of the United States can only afford lower priced imports. If these arguments are advanced, I submit that the question which you should ask the entities making these arguments is whether their profits are greater when they use imported textile goods as opposed to domestic textile goods. Certainly, if a group's profits rise with an increased use of imported textiles, its argument should be discounted as prejudiced, biased, and founded upon personal greed. Your concern must be for the American workforce and American industry, rather than for the profits to be derived by importers and high volume retailers.

Don't be fooled by manipulated statistics which do not reveal the volume of textiles and textile products channeled into this country through non-textile producing countries in order to circumvent existing restrictions on imports. Nor should you be deceived by data which excludes from the imported volume items which only have belts, buttons or zippers put on them in the United States in order to be classified as finished in America. These are economy destroying games played by the greedy in order to turn a quick buck.

The job of the government is to govern. You, as elected officials, are the ones chosen to carry out that most important function. Part of the governing function is the enforcement of established laws, regulations, treaties, pacts and arrangements pertaining to the importation of textiles, Therefore, I urge you to recommend the enactment of S.680 into law without delay. Let the word go out from this Subcommittee that America will no longer permit the decay of her essential industries, and that the continued life of the American workforce and American industry is more important than the continued growth of the profits realized by importers and retailers of imported textiles and textile products.

Thank you for your time and attention.

NORTH BERGEN PIECE DYE WORKS, INC.

Year	Average Production Employees	Actual Production Man/Hours	Actual Yardage Shipped
1958	52	129,000	17,500,000
1967	54	152,291	21,236,000
1973	63	140,000	23,963,000
1977	52	113,161	18,135,000
1984	63	115,025	14,101,000

Note: All figures have been taken from reports submitted to the U.S. Department of Commerce. The years presented represent all of the years for which reports were required.

APPENDIX A

EMPLOYEE/EMPLOYER STATISTICS*

Year	Number of Employees in New York Metropolitan Region	Number of Plants (Employers)
1969	7144	153
1970	6703	141
1971	6347	136
1972	6166	127
1973	6129	119
1974	5611	111
1975	5337	107
1976	4998	103
1977	4188	100
1978	4384	93
1979	3632	84
1980	3622	79
1981	3586	78
1982	3006	65
1983	2780	60
1984	2801	57
1985	2340	54

*These figures represent only plants which are or were part of the Silk and Rayon Printers and Dyers Association, Inc., and the employees who are working or did work in those plants.

APPENDIX B

Senator **Danforth**. Gentlemen, thank you very much.

This bill is, I think, unusual in that it asks for a permanent quota. Most quota provisions or suggestions for quotas ask for short-term relief. For example, in 1981 the auto quota bill was for a limited period of time. The International Trade Commission's recommendation for shoes was for 5 years. And the theory is that quotas generally should not be permanent, but that they should be sufficient to provide for a period of adjustment, a period of rebuilding an industry, and then be phased out or be terminated. Now, sometimes that doesn't work out that way; but that is at least the theory of quotas in general, that they should not be permanent.

You are asking for a bill that would provide permanent quota relief. Do you think that's right? Or do you think you could settle for something less than forever?

Mr. **Rubenstein**. Sir, how do we plan? How do we know? We tend to be stifled when we say they are bringing in unlimited quotas, and when they permit cheating and lying in understated visa information. We have no opportunity to even maintain our business relationships. And the inevitable thing that will happen is that we will have to go out of business; there is no question about it.

Senator **Danforth**. But do you think it has to be forever? That 5 years wouldn't be enough?

Mr. **Rubenstein**. We don't think so, because the same abuses will occur, the subsidization of foreign employees will happen, and we will be lost.

Senator **Danforth**. Mr. Rovinsky.

Mr. **Rovinsky**. I think that for the next 5 to 6 years, an enforceable quota system is necessary. Personally, I am not worried about imports or afraid of imports. I just flew to Washington from a technology show in Atlanta which showed state-of-the-art equipment, and I firmly believe that the American manufacturers can continue to modernize and update their equipment and compete on the world market.

Senator **Danforth**. Do you think 5 or 6 years would do it?

Mr. **Rovinsky**. Well, I think that right now 5 or 6 years is necessary, and I think we always have to be aware of the way that these other large exporting nations operate.

I would hope that their economies and their way of life for their employees would develop, and we could all operate together. But I know in our case, as I say, we have a state-of-the-art operation; but we have to continually modernize. And right now there is no way that you can plan, whatsoever.

Senator **Danforth**. Mr. Hagale.

Mr. **Hagale**. Well, if this bill were to have a sunset provision, Senator, the concern that I would have is that in a 4- or 5- or 6-year period, that the conditions that exist today that have caused imports to achieve such a high level of penetration would still exist at that time.

Senator **Danforth**. I understand. But your industry has already been protected—for what? 23 years?—since 1962. It has received quota protection since 1962. Now you are asking for a much stiffer protection, forever.

Mr. **Hagale**. There has been quotas imposed that have still allowed the industry to lose 50 percent of the domestic market up to 1984; the projections of those losses to 1990 are devastating.

Senator **Danforth**. But you are not asking for first-aid; you are asking for a permanent life-support system.

Mr. **Hagale**. Well, I think the thing that has to be taken into account is the fact that the industry in total has spent a lot of money to modernize and be productive. That is not the problem. We are not in the same situation as some other industries that have been overtaken by technology. The problem is the relative cost of labor in those other countries and the government subsidization of those industries. They have a different reason for exporting to the United States than we have for exporting to them: They need to maintain their labor forces, they need to generate U.S. currency, and they need to improve their balance of trade. So, I don't think those conditions will change in 4 or 5 or 6 years.

Senator **Danforth**. Mr. Scheyer.

Mr. **Scheyer**. Senator Danforth, 5 years would certainly be more than adequate if, at the end of 5 years, someone could assure me that the situation would be more equitable. Would we still be competing against governmentally subsidized companies in foreign lands, when our Government requires us to continually provide higher and higher standards of living that exist nowhere else in the world? Would we be competing against companies who target an American industry while at the same time do not even afford us the opportunity to ship 1 square inch of textiles to their country? How can you continue like that if it is not reciprocal? It must be a reciprocal agreement.

Senator **Danforth**. Well, I'm for that.

Senator Matsunaga.

Senator **Matsunaga**. Thank you Mr. Chairman.

I am inclined to agree with you on that, because of the unfair practices in the manufacturing of products by foreign countries, that you do need protection—not by means of subsidies but at least by limitation of imports and quotas—I am opposed to this present measure, however, because the bottom line is American jobs; and it would mean 3,000 American jobs in Hawaii if the bill is passed in its present language.

I have one other question. From your testimony, I take it that competition comes not only from the Orient but from the other countries as well. By the language of the bill, as you know, Canada and the European Economic Community are not touched at all, even though the fact is that in the last 2 years the greatest percentage increase of imports have been from those two areas.

Also, Mexico and the Caribbean Basin would be subject to less restrictive quotas given to imports than from the Pacific Rim nations. And you heard testimony earlier that American territories are being treated as "foreign countries."

Now, would you object to having a bill extended to all of these other areas which give you competition as well?

Mr. Schievey? I call you "Schievey" because you adressed me as "Matsugawa." [Laughter.]

Mr. Scheyer.

Mr. **Scheyer**. Senator, I am not going to fall into the trap again. [Laughter.]

Senator, I am not in a position—except for my presence here today—to amend the bill. But certainly you are correct: the citizens of the territories and possessions of the United States should be exempt from this bill, and this is the only opportunity I have to say that.

Senator **Matsunaga**. Thank you.

Mr. Hagale.

Mr. **Hagale**. My personal view is that the American territories should also be exempted from the bill And in response to the emphasis being placed on limiting the import penetration from the Oriental countries, it simply so happens that, even though they were not the largest percentage increase, they represent the largest piece of the total in terms of the import penetration into the apparel and textile market in this country. So, that is where the largest effort needs to be placed.

In terms of the Caribbean countries, this country has already taken a stance that we intend to help develop the economic region in this hemisphere, and I think that was probably the logic behind eliminating those countries from the strict requirements that we placed on the other foreign countries.

Senator **Matsunaga**. Mr. Rovinsky, or Mr. Rubenstein?

Mr. **Rubenstein**. Senator, the competition and the loss of jobs that we are experiencing are coming from the Pacific Rim countries that you described, not from Mexico and not from the Caribbean countries but from Taiwan, Korea, the Philippines, and the People's Republic of China. They are the ones that are dumping this type of goods into the country.

Senator **Matsunaga**. [Pointing to sun caps on witness' table.] Is that made in Korea?

Mr. **Rubenstein**. No, sir. This is made in the U.S.A. by American people. This is the type of goods that they are dumping into the country today, and they are the ones who are giving us this and threatening our very existence.

Senator **Matsunaga**. But they are not printing "Made in USA" and shipping from their countries, are they?

Mr. **Rubenstein**. They probably would. They might. [Laughter.]

I would put nothing past them in many regards, because if they would lie and cheat about visa weights, I can see where nothing would stop them.

Senator **Matsunaga**. I think, of course, just as you yourself would that I would be more likely to exceed the 55-mile speed limit if there was no cop around——

Mr. **Rubenstein**. Not really, sir. [Laughter.]

Senator **Matsunaga**. I mean we all suffer human frailties and tend to do that which we would not do if we were being watched.

Mr. **Rubenstein**. I would beg to differ with you.

Senator **Matsunaga**. What I'm trying to say, Mr. Rubenstein, is that we should have a cop watching over suspected exporters so that they would cease their falsifying activities you mentioned.

Mr. **Rubenstein**. But the cop that we have is not working, sir; he is not doing his job. He is turning his eyes to everything that is going on.

Senator **Matsunaga**. Then we should do something about the cop, should we not?

Mr. **Rubenstein**. Right. That is why we are asking you to pass this new bill.

Senator **Matsunaga**. Well, I think maybe if we put better cops there, we may not necessarily have to pass the bill in its present language.

But I am glad to know that those caps which you display were not sent from Korea, because they are clearly marked "Made in USA."

Well, Mr. Rovinsky.

Mr. **Rovinsky**. Well, first of all, I would like to respond to your comment about maybe we need to get better cops.

I think if this bill provides for both better enforcement and proper legislation—it is very hard for you to comprehend the problems we face in modernizing and planning strategies when our competition consists of countries that have a much lower wage than we pay, and countries that are, as Mr. Rubenstein said, shipping merchandise in ways completely different than the current agreements allow for.

There is absolutely no way for us to document what we are up against.

And as far as your question about the U.S. possessions being exempted, I see no problem with that. I think if you look at the whole pie, that your employment problem is in the mainland as well as in the possessions, but the numbers in the mainland, of course, are far greater.

But I see no problem with all of the possessions being included.

Senator **Matsunaga**. You mean excluded?

Mr. **Rovinsky**. I am sorry—excluded. Yes, sir.

Senator **Matsunaga**. Thank you very much.

Senator **Danforth**. Senator Bradley.

Senator **Bradley**. Thank you, Mr. Chairman, and let me welcome Mr. Scheyer in particular to the hearing today, and thank the panel for their testimony.

I am sorry I missed some of the testimony, but I think all of us on the committee are concerned about the amount of job loss and decline in the textile and apparel industry, and I think there is a real sensitivity to the workers who have either lost their jobs or are faced with the loss of their jobs.

I think the purpose of these hearings should be to look at the bill, S. 680, and ask whether, considering all interests, and particularly those of people who are directly involved in the competition, there aren't aspects of the bill we could change in a way acceptable to you.

One of the things that I am concerned about is the permanent nature of the legislation. I don't know if any other Senator asked, but could you accept a time limit on the quotas that are in the bill? As you know, now it is permanent, and I wonder if you could accept a time limit during which time you think you could adjust.

Maybe we could go right down the witness list.

Mr. **Rovinsky**. We have responded to a similar question. In my opinion, 5 or 6 years would be sufficient, assuming that we were able to predict what our trading partners' stance would be in 5 or 6 years.

Personally, I feel that, with the technology available today, we are not going to have problems competing with imports—again, as long as we know what the rules are.

Right now, I haven't seen any evidence to display to me what the position of the trading partners is going to be in 5 or 6 years; but, in theory, I am for some sort of 5- or 6-year limitation.

Senator **Danforth**. Mr. Rubenstein?

Mr. **Rubenstein**. Senator Bradley, being from Missouri, we have an old saying, "You have to show me." And so far they haven't shown us that they can play the game fair. You set rules, and they violate the rules. And in our case where they were to ship one dozen, they understated their visa weights and shipped close to two dozen. And we think there needs to be permanent rules so that we can adjust our manufacturing facilities and plan our budgets and plan our expansion, if that is possible, and help our people maintain their jobs. But the way it is now, we having nothing that will assure that, and everything is in a state of chaos.

Unless the people in the Pacific rim realize that these are the rules by which the game is played—you have to run to first base first, and then to second base, and not run straight to third base as they are doing now, and making us lose jobs, and hurting our industry seriously.

Senator **Bradley**. The point you raised is primarily an enforcement point, and I think you made an interesting observation earlier about looking at the weight of goods in addition to the volume.

Would everyone here like to see the imports checked on the basis of weight in addition to volume? Just Yes or No down the list.

Mr. **Rovinsky**. Yes.

Mr. **Hagale**. Yes.

Mr. **Scheyer**. Yes.

Mr. **Rubenstein**. In our case, volume would be the important factor. In other words, a cap is a cap is a cap, no matter what it weighs.

Mr. **Rovinsky**. Both volume and weight. You make the two figures check, and that way you have a good defense against fraud.

Senator **Bradley**. And all of you could check customs, right?

Mr. **Rubenstein**. We would have no control over that.

Mr. **Rovinsky**. I like the idea of S. 680 utilizing the Department of Commerce and asking the importers to obtain licenses. That way it can be checked on both ends. I think that is fantastic.

Can I make another point, please? One of the problems under the existing agreements has been transshipment of merchandise—garments originating in one country being shipped to another country, and coming in under a third country.

I think you asked me about a 5- or 6-year timetable or some sort of timetable. In theory, I think that is fine; but we have to watch out about some of the Pacific rim manufacturers setting up operations in countries that aren't governed by quotas 5 or 6 years down the road. That can be a tremendous problem.

Senator **Bradley**. Is that a problem that most of you face, the transshipment problem?

Mr. **Rubenstein**. Yes.

Mr. HAGALE. Yes.

Mr. SCHEYER. Yes.

Senator BRADLEY. Well, what do you think of this as an idea to get at that problem directly? Many of these countries do benefit from GSP, general system of preferences. What if there were a provision in our law that would say no country can benefit from GSP unless they have revealed their capacity to produce textiles and apparel to our International Trade Commission, Department of Commerce, or whatever, so that independently of that country we could check what their maximum capacity would be? So that, if suddenly you found goods coming in from Afghanistan, as they are now, or from Sri Lanka, in quantities that they are now, and it exceeded the maximum capacity, they would automatically lose their GSP. It would be a major disincentive for them to be a transshipment point. Would you favor that?

Mr. RUBENSTEIN. I don't know how you would enforce it.

Mr. HAGALE. How would you enforce it?

Mr. RUBENSTEIN. That is the problem. How would you police that, sir? We have already had policing problems in the existing agreements.

Senator BRADLEY. How would we police S. 680?

Mr. SCHEYER. We can police all of this very simply: if you want to ship textiles to my country, I ship textiles to your country, or you are not allowed to ship textiles to my country.

Mr. ROVINSKY. I like the idea of having the importer obtain a license and having our trading partner work within a quota system, again so that we can check from both ends.

You are talking about an exporting country reporting to our Customs Service their manufacturing capacity on a yearly basis. And assuming that we can hold them to their figures, the ideal is good. But in the needle trades, we would have to be very diligent in our enforcement; because you can set up a sewing shop in a week's time in some cases, where they utilize very cheap labor.

Senator BRADLEY. All right.

It's up to you, Mr. Chairman; the bell rang a few minutes ago.

Senator DANFORTH. Yes; it sure did.

Senator Matsunaga, any other questions?

Senator MATSUNAGA. No questions.

Senator DANFORTH. Senator Bradley.

Senator BRADLEY. No; Mr. Chairman.

Senator DANFORTH. Very well. Gentlemen, thank you very much.

Our next panel consists of three witnesses. Would you all please come forward?

The Chair would announce that we have 12 more witnesses, and we are going to have to observe the 3-minute rule on testimony. The clock is going to run, as appropriate. And the Chair would like to announce its attention to hold questions to a limited time. If people need another round, fine; but let's try to observe the clock so that we have an orderly procedure.

This panel consists of Nilda Quintanilla and Eleanor Kuhns, on behalf of the Amalgamated Clothing & Textile Workers Union; Joe Moore, Murray Merle, and Tom Li, on behalf of the Ladies Garment Workers; and Beverly Reed, Anne Marazita, and Wing Fong Chin, on behalf of the Ladies Garment Workers.

Senator Heinz.

Senator **Heinz**. Nilda Quintanilla of McAllen, TX, is accompanied by a constituent of mine. Eleanor Kuhns is from Shamokin, PA.

Ms. Quintanilla and Ms. Kuhns, we welcome you to the committee. You are appearing here on behalf of the Amalgamated Clothing & Textile Workers Union. Would you please be our leadoff witnesses?

Ms. Quintanilla.

STATEMENT OF NILDA QUINTANILLA, McALLEN, TX, ON BEHALF OF THE AMALGAMATED CLOTHING & TEXTILE WORKERS UNION, ACCOMPANIED BY ELEANOR KUHNS, SHAMOKIN, PA

Ms. **Quintanilla**. Thank you very much.

My name is Nilda Quintanilla, and I appreciate this opportunity to tell you today something of the concerns about imports.

Those of us who work in the Rio Grande Valley in Texas and I ask you to pass the Textile and Apparel and Trade Enforcement Act. I want to tell you how we are afraid for our jobs and how we hope you will help us by stopping all of our work from being taken to other countries.

I work as a material handler at the Levi Plant in McAllen, TX. My plant now has a bit over 500 employees, and the work is good. We are lucky, though; many Levi plants were closed last year; and we got work from those plants. That is why we are better off this year, but we still have fears.

In the valley, like in McAllen and Brownsville, there is a lot of unemployment, especially in Brownsville and the little towns around it. I understand that unemployment in Hidalgo County around McAllen runs from 22 percent. In the county next to us, Star County, unemployment is 40 percent.

I worked only part-time from around June of last year, at vacation time, all the way to December. I worked a couple of hours a week, 20 hours, 16 hours, then 8 hours. Then there would be a whole month when I didn't work at all. And not only myself—there are a lot of employees like that. We had four lines, then it went down to three, then it went down to two, and we were afraid they were going to make it only a one-line plant.

After that we started getting work from other Levi plants, and that kept us open. Now there is a lot of work, because, as I said, there are 17 to 20 Levi plants that closed last year.

We are beginning to be aware of all this twin-plants concept that we are having in the valley. They are cutting in this country, and they are sending the cloth into Mexico to be assembled.

There is a lot of work in McAllen which is going elsewhere. There is a lot of fear among my friends of plant closings, especially people who have been working here at Levi's. It would be hard if a plant like Levi's was to close down. It would be hard for employees to get work. Some are old and feel they are not capable of being retrained.

Last year I was laid off a lot. I began to think about this import thing and started doing a survey, checking the merchandise that I was going to buy. I told my plant manager at Levi's last week how

I went to buy some jeans. I picked up a Levi, and when I saw that it was made in Mexico I just threw is back. I didn't even fold it. I went and bought another pair of jeans that said "Made in USA." To me, I felt bad, like a traitor; but I wasn't going to buy import goods anymore. It is getting to the point that my job is at stake.

I come here to urge you to help us pass this bill and help us protect our jobs.

Thank you.

Senator HEINZ. Ms. Quintanilla, thank you very much.

Ms. Kuhns.

[Ms. Quantanilla's written testimony follows:]

STATEMENT OF

NILDA QUINTANILLA

McALLEN, TEXAS

Good morning. My name is Nilda Quintanilla. I appreciate this opportunity to tell you today something of the concerns about imports those of us who work in the Rio Grande Valley area of Texas have over the future. And I ask you to pass the Textile and Apparel Trade Enforcement Act of 1985.

I want to tell you how we are afraid for our jobs and how we hope you will help us by stopping all our work from being taken to other countries.

I work as a material handler at the Levi plant in McAllen, Texas. I have also been a supervisor and machine operator in the eight and one-half years I have worked there. My plant now has a bit more than 500 workers and the work is good. We are lucky though. Many Levi plants were closed last year and we got work from those plants. That is why we are better off this year. But we still have fears.

In the Valley, like in McAllen and Brownsville, there is a lot of unemployment, especially in Brownsville, and the little towns around it. I understand that unemployment in Hidalgo County, around McAllen, runs about twenty-two percent. In the county next to us, Starr County, unemployment is forty percent.

When there is a layoff, it affects a lot of people. It goes into a 25 mile radius, and even further. We have people from all over, not just from McAllen, and when they are on short-time, they come to work four hours and it takes them 30 minutes to get here. For gas alone, it's very expensive. That's what was happening last year and into the beginning of this year.

I worked only part time from around June last year, at vacation time, all the way to December. I'd work a couple of hours a week, 20 hours, 16 hours, then 8 hours. Then there would be a whole month when I didn't work at all.

And not only myself, there were lots of employees like that. We had four lines, then it went down to three, then it went down to two, and we were afraid they were going to make only a one-line plant.

After that we started getting some work -- as a matter of fact some of it was from Tyler, and so we got work from other plants and that kept us open, and now there is a lot of work,because as I said, there are seventeen to twenty one plants that closed last year.

I have been married for 20 years now and I have four children. I have two teenagers that are going to high school, and high school is a little bit expensive. My husband works for a freight line company, and a lot of times in McAllen, when the peso devaluates in Mexico, business goes down. And every time business goes down, my husband gets less and less work, which means that if I get laid off and he gets laid off it puts a strain on our household budget. As it is, we are barely able to make both ends meet. We're not behind, but I'm not saying we're ahead either. It's a type of situation that involves a lot of people around here, not just myself. They have problems. They get laid off.

We are beginning to be aware of all these imports and this twin plants concept that we are having in the valley. They are cutting in this country and they are sending the cloth into Mexico to be assembled. I just got word that another clothing company is cutting on work in McAllen because they are thinking about moving to Mexico also. Another company, which makes parts for TV's and electronic equipment, used to work 5 and 6 days a week. Now they have cut down to four. There is a lot of work in McAllen which is going elsewhere.

There is a lot of fear among my friends of plant closings. Especially people who have been working here at Levi's. More than half of the people who are working for Levi once worked in the fields or went up north to find work. Those jobs have been eliminated, or have been cut down or the expense of going up there is not worth it. So they work here. It would be hard if a plant like Levi, like our plant in McAllen, would close down. It would be hard for the workers to get jobs. Some of them are old, and they feel they are not capable of being retrained. It is pretty hard. I'm 34, and I personally feel that if I were to lose my job, I'd get another job, but it would take me a little while because jobs are very scarce.

There isn't much alternative employment available in the area. And what is available has bad conditions and low wages.

Last year, when I was laid off a lot, I began to think about this import thing. I don't know for a fact that our work is going abroad, but I hear a lot of conversation about it. A lot from workers that get laid off at other plants too.

So last year I began going into stores comparing things, checking where they were made. What was happening didn't hit me, until I was actually in the stores and saw where all this merchandise was coming from.

I told my plant manager at Levi last week about how I went to get my children clothes. I saw this beautiful blue jean by Levi -- that's the first thing I usually do, check for Levi -- and I picked it up and found it fit my kid's size. Then I looked inside the label, which I never did until I understood this import thing, and the label said "Hecho en Mexico," Made in Mexico, so I threw it back. I didn't even fold it. I just threw it back.

I went to another rack that had Lee's jeans which said, "Made in USA". So I bought Lee's.

And to me, I felt bad. Like I was a traitor or something, but I wasn't going to buy imported goods anymore. It's getting to the point that I feel my job is at stake.

I know people in Mexico must work too, as well as people in other countries. But, to me, my family comes first. My husband and my children. I was born in this country. My father was born here. I am an American.

I feel that anything in excess is harmful, no matter what it is. And this import thing, I don't have anything against bringing things in from other countries, but not excessively, so it will hurt people here. We need to be strong. We need to be able to work. What I feel is, we don't need a lot of government handouts, what we need is work. And the best way to do that, to have work here, is not to get so many things from other parts of the world. To be able to do them here. To make our own clothes here. So that people can have a sense of security, of pride, in doing their own thing here.

Being able to work for what you want to do. That has always been the American way. How are we going to get stronger? Not by bringing things here from other places, but by doing them here. Giving people work to earn their own way. I think that's the most important thing to me.

Thank you for letting me speak to you today.

STATEMENT OF ELEANOR KUHNS, SHAMOKIN, PA, ON BEHALF OF THE AMALGAMATED CLOTHING & TEXTILE WORKERS UNION

Ms. KUHNS. Mr. Chairman, I would like to thank the Senate Trade Subcommittee for the opportunity to tell you about the distressing effect of textile and apparel imports and to urge you to pass Senate bill 680.

I am here to speak for the thousand workers who used to work at the Arrow plants in Lewistown and Elysburg, PA. Our jobs are gone—but you can save the jobs of hundreds of thousands of other workers by passing this bill.

The major industry in our area of Pennsylvania since the anthracite coal mines closed has been the garment factories, and now even that is being taken away from us.

The Arrow Shirt Co., which was my bread and butter for 24½ years closed their doors in May 1985. I wish all of you could come with me to Shamokin and Lewistown and see the desperation of the people first-hand.

I could go on endlessly about the problems faced by many co-workers and friends who have lost their jobs because of imports, but let me tell you of the trauma and the heartache of a few.

Ruth Ann lost her job in November 1984 when the Shamokin Dress Co. closed—250 jobs were lost because of imports. In April 1985 her husband Joe lost his job at the Arrow Shirt Co., closed because of imports. For a year and a half now, this family's 18-year-old daughter has had cancer; with surgery and chemotherapy, their bills are so high and not entirely covered by insurance. And Joe's health insurance terminated in August.

Put yourselves in this family's position.

Another worker lost her husband. She worked steady for 33 years, and when she went up to sign for unemployment, the full impact of losing her job hit her at that time. And because for a moment, she momentarily forgot her name, she even lost her vision, they said, "If you are in this condition, you are not available for work," and they even denied her unemployment benefits. Because her husband is dead, she has a son who is 29 who gets epileptic seizures and nobody will hire him, what are the two of these people going to do?

There are so many cases like this, that I could go on and on. And most of the people who lost their jobs are elderly people. There is no work for the young, let alone for those who are older.

I don't think it is too harsh a term for me to say to you that the flood of these imports is economic murder; it is economic assassination of people who have worked loyally, committed, and hard, when our government hasn't returned that loyalty to the people.

We are proud people. We have always worked hard. And we don't want handouts; all we want is a chance to earn our way. It hurts our pride to have to ask for handouts. Just give us jobs, that's all we ask.

I am so proud of you, Senator Heinz, and of our other Senator, Arlen Specter, because I know you realize the seriousness of this problem, and I know you are supportive of controlling imports and of the trade adjustment assistance, to extend it. Help us to survive. Our fate is in your hands. Treat us kindly, and God will reward you.

[Ms. Kuhns' written testimony follows:]

Statement of
Eleanor Kuhns
on S. 680

Mr. Chairman, I would like to thank the Senate Trade Subcommittee for the opportunity to tell you about the distressing effect of textile and apparel imports, and to urge you to pass S. 680, the Textile and Apparel Trade Enforcement Act. I am here to speak for the 1000 workers who used to work at the Arrow plants in Lewistown and Elysburg, Pennsylvania. Our jobs are gone -- but you can save the jobs of hundreds of thousands of other workers by passing this bill.

It's ironic that an immigrant, my mother, came to this country many years ago from Czechoslovakia because there were jobs and she could make a better life for herself and her family. Now, a generation later, there are no jobs even for the American-born. The Federal Government has done practically nothing to protect domestic industries from imports.

The major industry in our area of Pennsylvania since the anthracite coal mines closed has been the garment factories, and now even that is being taken away from us. The Arrow Shirt Company, which was my bread and butter for 24½ years, closed their doors in May 1985. Just a year ago, the two Pennsylvania plants took top honors for quality and production. Workers were lauded and praised to high heaven, and now we have nothing. Nearly 1,000 people were thrown out of work when imports closed the doors of the Arrow Elysburg and Lewistown plants. Dedicated employees were discarded like broken down machines with very little notice, no time to adjust, and no other place to go because garment factories have been closing one after the other for the last decade or so.

In other words, Senators, our people are victims of a flood of imports, left twisting in the wind by a government who does not see things in terms of human beings but makes decisions on a maze of statistics which do not show the empty supper table or the cold house because there isn't enough money to heat it. Work hasn't been plentiful these last years. Workers had days off each week or didn't work 8 hour days because of imports taking their work away. So, their unemployment benefit rates are low, and often benefits are already drawn out when a plant finally closes. Sometimes, only 2 or 3 weeks of unemployment benefits remain.

In the past, workers who lost their jobs through imports could count on receiving Trade Adjustment Assistance and job training. Now, even that will come to an end within 2 weeks unless Congress extends it. We pray that you will.

I could go on endlessly about my many coworkers and friends who have lost their jobs because of imports. But let me tell you of the trauma and heartache of just a few.

Ruth Ann lost her job in November 1984, when the Shamokin Dress Company closed because of imports (250 jobs lost). In April 1985, her husband, Joe, lost his job when Arrow Shirt Company closed because of imports. For a year and a half now their 18 year old daughter, Joann, has had cancer. With surgery and chemotherapy their medical bills have been high and not totally covered by insurance. Joann gets extremely severe headaches, convulsions, hallucinations, and has recently started getting chest pains. Joe's health insurance terminated

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in August. Their other daughter, Maureen, 21 years old, had surgery in July for a malignant growth, cancer in the lymph nodes, and needs chemotherapy for 8 months. A recent check-up shows high levels in the liver area, and she has to go for a liver scan.

Put yourselves in this family's position, Senators. They've been denied medical assistance because their unemployment income is too high. Ruth Ann receives $80.00 a week, and Joe receives $160.00 per week. They've been trying to find work, but most of our garment factories are gone, and those that are left are only hanging in by a thread, and don't have enough work for those already on the payroll. Trade Adjustment Assistance for a family in this predicament would be like a miracle from heaven. It would give them extra months to find work, but only if Congress extends it.

The dispair and desperation is like being caught in a rat trap with no place to go and no way out. I wish all of you could come with me to Shamokin and Lewistown, and see the desperation of these people first hand.

Three weeks ago a newly-married young couple came to me and gave me an envelope with $470.00 in it and asked me to give it to Ruth Ann and Joe. She wasn't looking for any glory because she asked to remain anonymous. She said she and her husband collected this money from friends and co-workers and they put over $100.00 of their wedding money toward it. She said, "We don't really need it." Then she smiled and said "I mean we really do need it, but we have the things that we really need, and we feel that this family needs it more than we do." I had tears in my eyes when she left. If a young couple just starting out in life can feel the pain and desperation of people like this, why can't our President and Congress see it also, and do something about foreign imports that put Americans out of work?

Another worker lost her husband in an accident 4 months before the Arrow plant closed. She has a 29 year old son of normal intelligence, but he gets epileptic seizures and no one will hire him. She had worked steadily for 33 years and almost never collected unemployment benefits. The day she went to sign up for Unemployment the full impact of how she and her son would survive hit her. She began to tremble like a leaf, momentarily lost her vision, and couldn't remember her name. Instead of sympathy she was told, "You're not available for work in this condition. You should be on disability." She was refused unemployment benefits. So, with all her problems, she now had the expense of a doctor she could ill-afford. Until the doctor would give her a statement that she was available for work, she was denied benefits.

Another friend, because of a broken ankle, lost time from work, and when she was available for work again, there were short weeks because of imports. Now because of this, when the plant closed her unemployment rate was low. She had to sell many of her personal possessions at a yard sale, so she can meet her monthly expenses. When that's gone she'll have to sell her car also. She's 58 years of age. She doesn't know who will hire her with so little of the garment industry left, and how she will manage to survive until she's 62 and can collect her Social Security.

Some of these workers are full of rashes that look like measles - caused by nerves - knowing they probably can't find work, not knowing if T.A.A. will be extended. They're half crazy with worry. Some cry themselves to sleep at night, others just sit in a rocking chair, rocking the night away because they can't sleep.

The young ones have mortgages on their homes. Even with their youth there are no jobs available to them.

Many of the workers who had their children in college will have to pull them out. Education of our children is this country's most valuable resource. How long can this country remain great if we have no jobs to pay for the education of our children?

One woman lost her husband several years ago. Now she's 50 years old and has a retarded daughter. How are they going to survive?

Another woman is throwing up after every meal. She knows her chances of finding work are about zero. How will she live after her unemployment benefits run out?

Some of the people laid off at Arrow are so worried that when you speak to them, their minds are wandering, and they're not alert like they were when they were working. Some have already had their phones disconnected. They can no longer afford them. Others are preparing to sign their homes over for welfare when their unemployment runs out -- homes they worked hard to pay for. Only a dozen or two in each plant have been able to find other jobs since the plant closed in May. There was a job open for a seamstress about 30 miles from home. Three hundred people applied for that one job.

More than 35% of the Arrow workers were 50 years of age or older when the plants closed. They've never done any other work. They're probably too old to find another job, too young to die, and years away from Social Security benefits.

Another woman worked and kept her unemployed husband for 2 years. He passed away recently and now, at age 57, she lost her job. She has excruciating pain with a hip injury, but is afraid to have surgery because she worries about the bills. She took care of her husband and now there's no one to care for her. How do people like this survive?

Arthur worked until the last day work was available at the Arrow plant. He appeared to be in good health. Two weeks later he was dead of a heart attack.

I wish you would come see some of them checking out their grocery order. Two marrow bones with a speck of meat on them to make some soup. These people are facing a future with virtually nothing unless you help them.

The garment industry has dwindled to about two million workers. If we don't roll back apparel and textile imports now, before we lose more of those jobs, we could find even our servicemen at the mercy of the enemy in time of war for their uniforms, shoes, etc. Common sense dictates a country should remain self-sufficient.

I do not think it's too harsh a term for me to say to you that the flood of imports into this country is nothing short of economic murder -- economic assasination of the American workers who have worked loyally, committed, and hard. Our own government in not controlling imports has not returned that loyalty to its citizens.

Plant closings bring out violence in people who are ordinarily easy going, because of stress and trauma, the fear of losing the family home, the fear of going hungry, the termination of health benefits at a time when they're needed the most. Stripped of all dignity, the feeling of failure creeps in. These people desperately need help.

We're proud people who have always worked hard. We don't want handouts. It hurts our pride. We want jobs so we can earn our way. When I suggested to Sam, who was laid-off, to seek medical assistance for his medical problem, his face flushed and he looked like I had struck him with lightning. It was against everything within him to seek help. He was proud to have always earned his way in the past.

It's a complex problem and I commend you for having this hearing on the Textile and Apparel Trade Enforcement Act.

I'm proud of our Pennsylvania Senators, John Heinz and Arlen Spector. They are aware of the seriousness of our problems and are supportive of controlling imports and extending Trade Adjustment Assistance. I pray that all of you and President Reagan will see us as human beings, not as statistics, and help us. Our fate is in your hands. Treat us kindly and God will reward you.

I would like to leave you with this thought: When the Continental Bank of Chicago went bust, it took a few men in the right place only 24 hours to save it. Yet it appears that all our leaders on all levels can't save the manufacturing base of this great nation. They're letting us rapidly become a nation of fast-food restaurants -- a service society. We deserve better than that.

Senator HEINZ. Ms. Kuhns, thank you very much. I hope all the members of the committee read your testimony or see it on videotape, because both you and Mrs. Quintanilla have been very compelling. It would be a shame for anybody not to understand the degree and depth of heart-rending, just tearing emotion that you have aptly described with the term "economic assassination." And I thank you both for coming so far to appear today.

Our next witness is Mr. Joe Moore of St. Louis, Missouri, accompanied by Mr. Murray Merle and Mr. Tom Li.

STATEMENT OF JOE MOORE, ST. LOUIS, MO, ON BEHALF OF THE LADIES GARMENT WORKERS

Mr. MOORE. Thank you, Senator.

I want to thank you for this opportunity to testify on Senate bill 680, the Textile and Apparel Trade Enforcement Act.

In addition to our panelists, we have with us Mr. Warren Levi, president of New City Sportswear, Havershaw, NY; Mr. Sherman Ing, president of Cam-Fee Fashions, New York City, NY; and Mr. Edgar Romney, manager of local 2325, New York City, and vice president of the International Ladies' Garment Workers Union. They are here to support the legislation and to answer any questions you may have of them.

My name is Joe Moore. I am executive director of the Associated Garment Industries in St. Louis. I am very sorry that Senator Danforth, my Senator, can't be here.

Senator HEINZ. He has a meeting with a fellow named Clayton Yeutter.

Mr. MOORE. I am glad I don't have to pronounce that, Senator. [Laughter.]

Our organization represents manufacturers in eastern Missouri, southern Illinois, as well as one in Oklahoma and one in Kentucky.

At one time this organization numbered more than 100 members; now our membership has dropped to less than 30 firms. This may be attributed to several causes, but one of the primary reasons is unfair competition from low-wage countries. I would therefore like to urge that you take action against such imports.

I grew up in the garment industry. My mother was a manufacturer for many years, and I was a manufacturer prior to accepting my present post. Consequently, it is natural for me to be concerned about manufacturing. But my concern is also about workers in the textile and apparel industries and the productivity of our country.

I served in the Navy in World War II, and I am well aware that we won the war because we could produce tanks, planes, ammunition, shoes, uniforms, needed to assure victory. Could we do that today with our many vital industries depressed and imports at an all-time high?

Today we are becoming a nation of service people, not producers. In the past several years, a large percentage of our new jobs created have been in the low-wage service sector, not in the manufacturer where high pay is the rule. I don't mean to imply that the garment industry can be termed "high wage" in any way; as a matter of fact, statistics from the Department of Labor reflect that workers in the apparel industry are at the low end of the manufacturing scale, earning less than $6 an hour on average, hardly enough to survive in the face of rising utility rates, housing, medical costs, transportation, and other necessities.

It is not that manufacturers wish to take advantage of their employees; it is that they too are fighting to survive and are often faring little better than the workers. Frequently, it is simpler for them to close their doors than to continue operating when their profits are drained to the lowest possible level.

In order to compete, firms are forced to accept ever-decreasing percentages of profits in order to stay in business. Despite their efforts toward more efficient operation, there is no amount of engineering, no amount of machinery, no amount of state-of-the-art technology which will enable them to compete with firms where labor costs are, for instance, 12 cents an hour in Bangladesh or $1.18 an hour in Hong Kong. Even if money were available to modernize factories, today's high interest rates make the cost prohibitive because the returns are just not there.

Once the apparel industry was characterized as "sweat shops," but today it is not true; today's workers enjoy decent working hours and conditions, paid holidays and vacations, and retirement benefits. Many companies have received cooperation from their employees, who are willing to accept a moratorium on wage increases in an effort to keep their employers afloat and save their jobs. They are as well-aware of the problems imports pose as is management.

All too often, when they shop, they see two garments of comparative value side-by-side at the same identical price, one made in the United States and the other in a low-wage country. Under these circumstances, they find it hard to believe that the retailer is passing any savings on to the consumer; rather, they believe the retailer is taking an additional markup to increase his profits.

Looking specifically for clothing made in the United States is becoming more of a challenge every day, because there is less and less of it; in little more than 10 years, imports in apparel have grown more to more than 50 percent of the market. This means that more than a million apparel workers have seen their jobs exported, and many communities have been devastated by the closing of factories. To name some of these Missouri towns so affected, I can cite Festus—and I am sure that Senator Bradley remembers Festus, where they had members of a coed garment company that employed over 125 people, over half of them coming from Crystal City.

Senator HEINZ. Mr. Moore, I am going to have to ask you to summarize the rest of your testimony.

Mr. MOORE. Well, I could name off 32 towns, Senator.

Senator HEINZ. We will put your entire testimony in the record as it is.

Mr. MOORE. I appreciate that, but I want to say that these people are dedicated workers, pay taxes uncomplainingly, participate in community activities, educate their children, work and vote for candidates of their choice in each election. In short, they are the type of citizen who is the backbone of America.

The industry needs your help, and the workers need your help, and the 32 Missouri communities who have lost their manufacturing plants and jobs need your help. If you act now, perhaps the apparel industry can be spared the fate of the shoe industry, which today is almost nonexistent in the United States. If you act now, it may not be too late for us.

Thank you, Senator.

Senator HEINZ. Mr. Moore, thank you.

Mr. Merl.

[Mr. Moore's written testimony follows:]

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TESTIMONY FOR SENATE SUB-COMMITTEE ON INTERNATIONAL TRADE OF THE SENATE FINANCE COMMITTEE

Let me introduce myself. My name is Joe Moore and I am executive director of the Associated Garment Industries of St. Louis, an organization which represents manufacturers in eastern Missouri and southern Illinois. At one time this organization numbered more than one hundred members. Now our membership has dropped to less than thirty firms.

This may be attributed to several causes, but one of the primary reasons is unfair competition from low wage countries. I would therefore like to urge that you take action against such imports.

I grew up in the garment industry where my mother was a manufacturer for many years, and I was a manufacturer prior to accepting my present post. Consequently, it is natural for me to be concerned about manufacturers, but my concern is also for the workers in the textile and apparel industries and the productivity of our country.

I served in the Navy during World War II and I am well aware we won that war because we could produce the tanks, planes, ammunition, equipment, shoes and uniforms needed to assure victory. Could we do that today, with many of our most vital industries depressed and imports at an all time high?

Today we are becoming a nation of service people, not producers. In the past several years a large percent of the new jobs created have been in the low wage service sector, not in manufacturing where higher pay is the rule.

I do not mean to imply that the garment industry can be termed "high wage" in any way. As a matter of fact, statistics from the Department of Labor reflect that workers in the apparel industry are at the low end of the manufacturing scale, earning less than $6 an hour on the average - hardly enough for mere survival in the face of rising utility rates, housing, medical costs, transportation and other necessities.

It is not that manufacturers wish to take advantage of their employees. It is that they, too, are fighting to survive and often faring little better than the workers. Frequently it is simpler for them to close their doors than to continue operating when their profits have been drained to the lowest possible level.

In order to compete, firms are forced to accept an ever decreasing percentage of profit just to stay in business. Despite their efforts toward more efficient operation, there is no amount of engineering, no amount of machinery, no amount of state-of-the-art technology which will enable them to compete with firms whose labor costs are, for instance, 12¢ an hour (Bangladesh) or $1.18 a nour (Hong Kong). Even if money is available to modernize factories, today's high interest rates make the cost prohibitive because the returns are not there.

Once the apparel industry was characterized by sweat shops, but that is not true today. Today's workers enjoy decent working hours and conditions, paid holidays, vacations and retirement benefits.

Many companies have received cooperation from their employees who were willing to accept a moratorium on wage increases in an effort to keep their employers afloat and save their jobs. They are as well aware of the problems imports pose as is management.

All too often, when they shop, they see two garments of comparable value side by side at the same identical price - one made in the U. S. and one in a low-wage country. Under those circumstances, they find it hard to believe that the retailer is passing any saving on to the consumer; rather, they believe the retailer is taking an additional markup to increase his profits.

Looking specifically for clothing made in the U. S. A. is becoming more of a challenge every day because there is less and less of it. In little more than 10 years imports of apparel have grown to more than 50 percent of the market. This means that more than a million apparel workers have seen their jobs exported, and many communities have been devastated by the closing of a factory.

To name some of the Missouri towns so affected I can cite Festus, Ste. Genevieve, Cape Girardeau, Sikeston, Perryville, St. Charles, Eminence, Wentzville, Troy, Clarksville, Vandalia, Higginsville, St. James, Poplar Bluff, Malden, Chillicothe, Webb City, St. Joseph, Neosho, Lamar, Newburg, Willow Springs, Fredericktown, Carl Junction, Platsburg, Springfield, Aurora, Puxico, Marceline, and Garden City. Kansas City has lost approximately 10 factories and St. Louis 12.

In some instances, these communities have seen a shop close, re-open later with a new owner, and close again when it became evident they could not compete in today's market. These plant closings cost the jobs of some 5,000 Missourians. Ask them how they feel about unfair imports, how they feel about losing their jobs.

When you hear their answers you will understand why those remaining in the industry - from the owner to the janitor - live in constant fear that they may not survive unless something is done to help them compete. "Creative solutions" - whatever that means - is not the answer. What they need is some protection from unfair imports - imports from countries where the average income amounts to slave wages and the standard of living is far below ours.

I would like to point out that the garment industry has always prided itself on being the first to accept new immigrants to our shores, to hire the disadvantaged, to help minorities become part of the mainstream of American life. It was certainly among the first to recognize the contribution and worth of women - more than 90% of those employed in the industry ARE women - and to promote them to positions of responsibility.

Though some of the jobs create a second family income, many of the women are the sole support of families. To see them lose their jobs because of imports is a sad commentary on our society, to say nothing of the prevalent feeling that this represents discrimination against the weakest, least influential persons in our midst. These are workers who believed in the American dream, worked for it, and now find it ebbing away with the rising tide of imports.

I appeal to you to limit imports and help save the textile and apparel industries in this country. If the manufacturers can survive, earn a reasonable profit and expand, they can increase employment and save the jobs of a vast number of dedicated workers who pay taxes uncomplainingly, participate in community activities, educate their children, work and vote for candidates of their choice in each election. In short, the type of citizen who is the backbone of America. The industry needs your help, the workers need your help, and the 32 Missouri communities that have lost manufacturing plants and jobs need your help. If you act now, perhaps the apparel industry can be spared the fate of the shoe industry, which today is almost non-existent in the United States. If you act now, it may not be too late for us.

STATEMENT OF MURRAY MERL, TARRYTOWN GARMENT CO., TARRYTOWN, NY; AND PRESIDENT, SPORTSWEAR APPAREL ASSOCIATION

Mr. MERL. My name is Murray Merl. I am president of the Tarrytown Garment Co., and I am also president of a small trade association, the Sportswear Apparel Association, with member factories in New York, Pennsylvania, New Jersey, and the Connecticut area.

What has happened to my company is very much the same as what has happened to many companies within the industry, and I will try to briefly give you a little history of it.

The Tarrytown Garment Co. is a sewing contracting business, not a manufacturing business. We make garments for other manufacturers who sell them.

The company was formed in 1947 by my father and has been in business ever since. We manufactured ladies' dresses and maternity wear. I joined the company in 1959, and we have continued to grow throughout the 1960's and the 1970's, expanding our company twice, physically, in size as well as by employees. At the end of the 1970's we reached a peak of about 130 employees.

Starting in 1979, is when the decreases began. The people that we were manufacturing for could no longer afford to pay the prices that we needed to manufacture, and as a result we have continually lost our volume and have continuously laid off people to the point that we were down to 80 people this past season.

We started to go into specialized products such as swimwear, which were primarily domestically made, in order to combat the import problem. This past season, swimwear began to come in as an imported product, and we suffered a 25-percent drop in volume this past year. It was necessary for us to virtually shut down the entire plant through April, May, June, and July of this past year. We are just now beginning to try to get people back to work.

Our association was made up of 200 members. We have lost 50 percent of those members, for the same types of reasons that have affected my business. An average number of employees in member plants is about 60, with a loss of 100 factories in the last 36 months. There are 6,000 jobs lost within our association alone.

We certainly urge your support of this bill.

Thank you.

Senator HEINZ. Thank you very much, Mr. Merl.

Mr. Li.

[Mr. Merl's written testimony follows:]

STATEMENT

OF

MURRAY MERL

Prepared by Murray Merl, owner, for presentation to appropriate Congressional committees considering the Textile & Apparel Trade Enforcement Act of 1985.

Tarrytown Garment Company is a sewing contracting business that was established in 1947 by Louis Merl, father of the current owner. It is a business which has always been labor intensive and has provided employment for hundreds of people in this area over the 38 years of its existence. The company has grown throughout its history until the late 1970's when imports stopped its growth and caused its decline to its present condition.

When Tarrytown Garment first began contract manufacturing, only a handfull of people were employed. The founder and his family supplemented the work force. Used sewing machines were purchased and installed in a store-front building which housed the first factory. Ladies dresses and maternity wear were produced. By the early 1950's larger quarters were found and the company moved and increased its work force. In 1959 after graduating from college, the current owner joined the firm.

In 1960 the family purchased a small commerical and residential combination building. New sewing machines were purchased. These machines were the latest model self lubricating sewing machines available on the market. The product line was expanded to include ladies sportswear such as skirts, pants and jumpers. With the introduction of sportswear came new proceedures and methods of garment construction or engineering. Section piecework became the assembly system replacing whole garment production. We were rapidly becoming one of the most modern sewing factories in our area. At that time there were five sewing contracting factories in the Village of Tarrytown.

In 1965 the first of our major expansions was undertaken. The residential portion of our building was renovated and converted to commercial space for factory use. We were doubling our size and increasing the number of employees to 65 people. As contractors we would adjust our product lines to our customers' needs and accordingly began swimwear production to replace dresses.

We continued to purchase new equipment and update the equipment we already owned. Swimwear required many specialized machines and attachments. Some early electronics and air operated systems were installed. We continued to be one of the most modern sewing plants in our area. We further expanded by acquiring the assets of one of the other contract sewing factories in Tarrytown and absorbed most of their personnel.

The period from 1965 to 1974 continued to be one of growth. Our expertise, quality control and service to our customers kept the factory at full employment year round. Although the industry has always been seasonal, we worked 12 months a year because of the diversity of products we produced and our ability to change to what-ever was the current fashion.

As contract manufacturers we only worked with one or two customers at a time. It was always important that we made up a significant percentage of their production needs so as to secure our continuous workflow. As our customers' volume grew, we decided to expand again to keep pace. In 1974 and 1975 we built a two story addition to our existing building which more than doubled its present size. As in the past, we purchased new equipment and increased employment to over 100 people. From 1975 through 1978 we increased production and personnel peaking at 130 people in 1978.

Beginning in 1979, our customers began to run into price resistence in their markets. We, in turn, were asked to reduce prices. This was the beginning of the end. As our customers began to loose orders, our volume began to drop and our profit margins began to disappear. We were never a high profit business, but with sufficient volume, we were able to sustain ourselves. Our customers began to import some of their products from the Orient in order for them to compete, and our volume continued to drop. We began to lay-off people and stopped all capital expenditure for new equipment.

After more than 35 years in the business, we were not about to give up at this point. A new direction was needed to combat the effects of the imports. We decided to offer more and diversified services to replace some of the business lost. We set up a pattern-making and sample-making department offering manufacturers and jobbers these services complete with salesman's samples and specifications for import production. A production consulting service was offered whereby our personnel traveled to the Orient and the Carribean to secure and supervise production. The income produced by these new services contributed to keeping Tarrytown Garment in business but the number of employees continued to decrease as the domestic production continued to drop.

As domestic production of sportswear eventually disappeared, we put all our emphasis on swimwear, since this was still a domestically manufactured product. In 1984 and 1985 major retailers began to import swimwear from the Orient and our volume dropped 25%. This staggering blow brought us to our knees. From a peak of 130 employees, we had dropped to 80 and then to a virtual shut down. Beginning in April, 1985, we started extended lay-offs of most of our employees. Our managment staff has been severly reduced. Through May, June, July and August of this year, we have operated with a skeleton staff of about 18 people.

The demise of Tarrytown Garment has not been caused by lack of effective management or obsolete equipment. It has been caused by in-effective control of imports which have taken over the major portion of our market. There is no effective way that we can compete with the wage scale paid by the major exporting countries.

There is no technology available to off-set the enormous differential in wages. The only way that Tarrytown Garment can stay in business and for that matter, the overall apparel industry, is by the implementation of control of imports by passage of the Textile and Apparel Trade Enforcement Act.

Without passage of this bill, Tarrytown Garment will have to cease operations at the end of the 1985-86 swimwear season. As a prudent businessman, I should have closed Tarrytown Garment two years ago. It is very difficult to give up a business that you have worked at for 25 years of your life. A business that employed the newly arrived immigrant to this country, providing a job and the dignity of earning a living and not being dependent on public assistence. We contributed our $1,000,000 a year in payroll to our local economy as well as all the goods and services we purchased. We are the last remaining sewing contractor in Tarrytown, and by the summer of 1986, we will have to close permanently.

Tarrytown Garment is a member of the Sportswear Apparel Association, which is a trade group of sewing contractors with factories in New York, New Jersey, Pennsylvania and New England. As president of this Association, I can testify that the problems of Tarrytown Garment are mirrored by most members of the Sportswear Apparel Association. In the past 36 months, our membership

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has dropped 50% from 200 firms to 100. All our members rely totally on domestic production. The average member employees 60 people and the resulting lose of member firms has put over 6000 people out of work.

The problem very simply is our inability to compete with low wage countries. We can not reduce our standard of living to their level and an industry employing hundreds of thousands of workers can not be expendable.

Respectfully Submitted,

Murray Merl
President

STATEMENT OF TOM LI, COK FASHIONS, NEW YORK CITY, NY

Mr. Li. Mr. Chairman, my name is Tom Li. I am a contractor in the garment industry, employing about 150 workers in New York City, Chinatown. My shop is named COK Fashions. My business depends on the amount of work I get from jobbers in the industry, but in recent years it has become harder and harder to obtain work. The reason is imports.

I have spent many years building my business. I have always believed that the United States was a land of opportunity for everyone who was willing to work hard and to keep trying. Until now, I have never had any reason to doubt my belief.

But now I find that business is getting worse. I am still ready to work as hard as I ever have. I know that my shop is as productive as it has ever been, but the competition from imports just gets worse all the time.

I am ready to compete against any employer in the United States who must do business under the same conditions as I am. I have proved that I can succeed when everyone is playing by the same rules. There is no more competitive industry than the garment industry, but garment shops in many other countries don't play by the same rules; they don't have any rules at all.

I must pay the minimum wage; in other countries there is no minimum wage law. I must pay for health benefits; workers in these other countries get no health benefits. I must keep my shop clean and safe; elsewhere, there are no laws on health and safety. How can I or any other shopowner in the United States compete under these unequal and unfair conditions?

I do not object to paying my workers a decent wage or to obeying the laws of the United States; but I do object when others don't have to obey the same laws and can then take advantage by underselling me.

We must do something about imports that are destroying the laws of the United States and the rules of fair competition. I do not see how we can ask employers in other countries to obey American laws; so, instead, we have to control the garments they ship to us.

If you want the garment industry to survive in this country, if you want it to go on providing opportunities for those like myself, then I urge you to vote for the Textile and Apparel Trade Enforcement Act.

Thank you.

Senator HEINZ. Mr. Li, thank you very much.

[Mr. Li's prepared statement follows:]

STATEMENT OF

TOM LI

My name is Tom Li. I am a contractor in the garment industry employing about 150 workers. My shop is COK fashions. My business depends on the amount of work I get from jobbers in the industry, but in recent years it has become harder and harder to obtain work. The reason is imports.

I have spent many years building up my business. I have always believed that the United States was the land of opportunity for anyone who was willing to work hard and to keep trying. Until now I have never had any reason to doubt my belief.

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I must pay the minimum wage. In other countries there is no minimum wage law. I must pay for health benefits. Workers in these other countries get no health benefits. I must keep my shop clean and safe. Elsewhere there are no laws on health and safety. How can I, or any other shop owner in the U.S., compete under these unequal and unfair conditions?

I do not object to paying my workers a decent wage or obeying the laws of the United States, but I do object when others don't have to obey the same laws, and can then take advantage by underselling me.

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If you want the garment industry to survive in this country, if you want it to go on providing opportunities for those like myself, then I urge you to vote for the Textile and Apparel Trade Enforcement Act.

Senator HEINZ. We now have Ms. Beverly Reed of Decatur, IL; Ms. Anne Marazita of Mount Vernon, NY; and Ms. Wing Fong Chin, all on behalf of the Ladies Garment Workers.

Ms. Reed.

STATEMENT BY BEVERLY REED, DECATUR, IL, MEMBER OF INTERNATIONAL LADIES' GARMENT WORKERS' UNION, LOCAL 210

Ms. REED. My name is Beverly Reed. I am from Decatur, IL—that is in the Midwest.

I worked at Roffley's Garment Factory for 13 years. At one time in Decatur we had Pearlmutters, Shaws, S&W, Osgoods, Home Manufacturing, Alvorado, Simplicity Garment, Keeling Manufacturing, Roffley's, and Darlene's. That was just in the city where I lived. Today we don't have one shop. I worked for Kaufmann, who owns seven shops, and in the last 4 years he has closed Fairfield, Decatur, and the Spring Valley Shop. And I am one of those who can tell you first-hand exactly how it feels.

I was a widow in 1970, and I had three children ages 3, 7, and 11. I worked those 13 years in the shop. I had insurance, I had security, I had health benefits, and stuff for my kids that I wouldn't have had if I hadn't worked there.

When my shop closed in January of 1983, I had a heart attack 2 weeks afterwards, on February 14. It was due to stress. I was very emotionally involved with my factory, my company, and the people that I worked with. I had no insurance, because my company had closed. I couldn't draw unemployment, because I was not able to work. I went through all of the sign-ups for unemployment, went through to get the food stamps, and I stood in line to get my cheese. I was embarrassed. And I had girls, then, in college. I had one girl in college and one girl in high school. It was very embarrassing to tell them, "We don't do things like we did anymore; we have to conserve. I don't have the rent for this month, and I'll have to worry about it at the end of the month."

It's very sad to see my co-workers that had worked there 30 years that wanted to work. We are ready and willing to work. We asked people to come in and give us a job, and it was fruitless.

So I am asking your help to control the imports, and to make sure that my family and other families in the United States have jobs.

The dislocated workers? I had a woman go to the dislocated workers. She registered, and she had to have a high school degree. She graduated from high school in June. The lady is 61 years old. Nobody wants to hire her. But this is the kind of help we are getting, and we need your help, we need your support to stay behind us.

Thank you.

Senator HEINZ. Ms. Reed, thank you very much.

Ms. Marazita.

[Ms. Reed's written testimony follows:]

TESTIMONY OF BEVERLY REED

International Ladies Garment Workers Union
Member from Decatur, Illinois

My name is Beverly Reed.

I am from Decatur, Illinois.

I am member of the International Ladies' Garment Workers' Union, Local 120.

I began working for the R & M Kaufmann Garment Company, Decatur Shop in 1970.

I went to work a few months before my husband died in November of 1970, leaving me as the sole provider for 3 daughters, aged 3, 7, and 11.

I began as an unexperienced worker on a single needle sewing machine setting pockets and darts on middle priced dresses, pants suits, jump suits and holiday clothing.

The union had helped me get this needed job and the company provided the training to afford me the ability to provide for my family.

I had health insurance, retirement and vacation benefits and I had job security. And I put in a full days work for a full days pay.

We work hard in the garment industry. We are paid by piece rate, meaning the harder you work, the more productive and efficient you are, the more you make.

And the company had made it easier for us, they had spent a lot of money in our Decatur Shop on new and more productive machinery which made it easier for us to produce more.

In our shop we had 120 workers, about 110 of them were women. About half of the women workers had been working for Kaufmann's for over 20 years. They were hard workers and very highly skilled at their trade. The younger women used to kid them that the factory was built around them.

I remember at one Labor Day union picnic some of us younger members were talking to the older women about their lives at Kaufmanns' and we found out some amazing things; that like ourselves, over half of them had been sole providers for their families. But more amazing was the fact that about 90% of their children graduated from college. I remember that among their children there were medical doctors, lawyers, several college professors, engineers, school teachers, one scientist and some business owners. And not one of those women had a high school degree.

I bring this up because we in the garment industry are basically a working women's industry. We don't make a lot of money and we work very hard. But what we do have is our children; they are our future and our hope that life will be better. In the past our industry has always guaranteed that future.

But something went terribly wrong for us.

Beginning in the late 1970's garment shops began closing all over Illinois.

In 1977, two garment factories closed in Decatur.

In 1978, Pearlmutter and Osgood Garment Shops closed and in 1979 Alvorado closed. And in 1980 Decatur Garment Company closed.

In 1981, Kaufmann's, who had over 1000 workers in 7 sewing shops and 4 cutting rooms, in 6 different towns, closed a sewing shop in Spring Valley, Illinois.

That same year the company came to us and told us that because of imports they might be forced to close more shops. They asked our Local to take concessions. They asked that we take a 20% wage reduction on a promotional line of dresses. They also requested that we give up vacation time and some of our health benefits.

In December of 1980 we accepted all of the concessions. Our wages went from an average of $5.30 an hour to about $4.60 per hour. Our work load stayed the same, but the paycheck shrunk.

But even with the concessions things grew steadily worse. By the middle of 1981 the company began cutting the hours of work.

The members of my Local were frantic in trying to figure out solutions to save our jobs. We passed petitions asking for community support to control imports. We visited local retail stores asking them to "Buy American." We appealed to other unions and civic organizations; we put booths at festivals and fairs to appeal to local folks to buy American made clothing.

But all of this was to no avail. The Decatur R & M Kaufmann Shop closed in 1983, and within three years six more Kaufmann shops closed.

By 1984 all five garment factories in Decatur had closed, with 1000 people, of whom 850 were women, were out of work.

The members of Local 120 are not normally an aggressive bunch. I don't thing that most people would call us feminist or radical or anything like that; we vote, work hard, go to church and generally do what most women across America do every day.

But when you back a mother into a corner, and when the future of her children is at stake, we'll fight back.

To save our jobs and our children's future we took on a desparate fight for survival; we formed committees, delegations and began our struggle.

We wrote the President, appealing for assistance - no response.

We went to see the Governor - his answer was that we should get together and buy the factory.

We make $4.60 an hour and that adds up to little more than keeping yourhead above water, let alone buying our factory.

We went to our Congressman, who was supportive and tried to get the company a military clothing contract, but the company couldn't afford to redesign the shop to produce specifications needed by the military.

We went to our State Senator, State Representative and office after bureaucratic office from the Federal to the State to the local asking for help. But there was not help.

We finally exhausted the places that we could go and the little money that we had left. We surendered to the reality that we could not save the shop nor the 120 jobs of our members.

We were forced to turn to our local community college for retraining.

The college calls the program the Dislocated Worker Retraining Program. Its supposed to retrain workers for new jobs. The problem is there are not jobs to train for. Like cities across the midwest factory after factory in Decatur has closed. Decatur used to be the largest manufacturing center in Central Illinois, but now Decatur has a double digit unemployment rate with hundreds of people out of work. We don't have jobs, what we have are job retraining programs.

In the case of my Local, we had 120 workers who had a future, who were able to provide for their families but now have nothing. And those of us that were able to find work ended up at the Seven-Eleven, working the late night shift, or at McDonalds or as cleaning women, all for low wages.

Many of us have lost our homes, I know of ten women and their children who have been evicted. A lot of my friends are on welfare. And all of these women are hard workers who had planned to send their children to college, who had hopes and dreams now dashed against the rocks.

We used to believe that if you worked hard you would be rewarded. In our shop we had a consistently good record, our orders got filled and shipped on time. We excelled in the company as a shop that was known for speed, no mistakes and highly productive.

And we were loyal. When the company asked for a helping hand because they were in trouble, we accepted all the concession, but now we have nothing.

Some of our women had worked for Kaufmann's for 30 years - not old enough to retire, but too old to be hired elsewhere, even if there were jobs. And some of our women are young heads of households with children to feed, clothe and educate, who now buy food with food stampr.

We meet once a year now, about 85 of us, and we always ask the same question. Why?

The company told us that they simply could not compete with cheap imports and low foreign wages without protection from the government.

The government told us to retrain for jobs that weren't there. Or they told us who to get food stamps, Aid to Dependent Children, and sometimes the government didn't even care enough to respond.

Today, most of us have lost hope. Most of us think there is no help.

We are embarrassed because we are on welfare, or we have borrowed from family and friends with no way to repay. We stand in line at the Public Aid office or the Unemployment Office or some other government office.

And it takes its toll. For me it meant a heart attack and medical bills far beyond my ability to pay. The union stood by me during that time and paid my bills. For others the story is similar, stress attacks, financial humiliation and loss of hope.

The tragedy of imports is simply that the trade decisions made in Washington D.C. offices have had a horribly human impact in communities and neighborhoods like Decatur, Illinois.

Imports have taken our jobs and our health. They had taken our homes and our pride. Worst of all they have taken away our futures and our dreams.

We workers in Decatur are not numbers, we are human beings. We are mothers and widows, we are old and we are young, and we want to work.

I appeal to you today, please help us.

Please let me go home to Decatur Local 120 and tell my members that there is hope for us, that the Congress of the United States cares for us and will give us back our future.

STATEMENT OF ANNE MARAZITA, NANCY FASHIONS, NEW ROCHELLE, NY, ON BEHALF OF THE INTERNATIONAL LADIES' GARMENT WORKERS' UNION

Ms. MARAZITA. My name is Anne Marazita. I am a sewing machine operator, and I work at Nancy Fashions, a bridesmaid and gown factory in New Rochelle, NY. I started in the garment industry in 1933, 52 years ago. I have watched many changes take place in my industry.

In the early 1940's, our industry flourished as immigrants came to this country seeking work. The industry provided an easy means to earn a living, because one did not need to speak or understand English. Immigrants came here with some basic skills, ready to learn, ready to work. They were young and optimistic. The garment industry provided for many years a decent wage for these people, and through the years they have been able to raise their families.

In the late 1940's, Westchester County reached its peak: It had 150 factories employing approximately 5,000 workers. However, by the mid-1960's, I noticed we were losing workers and shops as well.

From 1973 through 1983 we lost 1,800 jobs in Westchester and Rockland Counties. The loss of these jobs was attributed to imports entering our borders from countries such as Taiwan, India, and other countries.

From January 1985, to the present, in my area we have lost an additional 600 jobs in just 6 months. There are but 1,200 workers left in the Westchester-Rockland Counties area, and their future is dismal. When they lose their jobs and go to the unemployment office, they are told to look for some other type of work, as long as they get paid the minimum wage.

Senators, tell me: Women who have no high school education, who speak a minimum amount of English and are supporting or at least helping to support a family, with today's high cost of living, what will they do?

However, these workers want to work and earn a living. They don't want to go on welfare. But they might be forced to do so.

What are the workers in my industry asking for? An opportunity to work 50 weeks a year. They want to help support their families and put food on the table, and help educate their children. Those are not high expectations.

If this industry does not get help now, it will virtually disappear. The future Americans who will be entering this country will find no work, and the ones who are now helping to build the cities and the towns will find themselves on welfare. This is a sad comment today, that workers who only want to work cannot find it because our Government allows countries who pay subhuman wages to dump their goods on our shores.

Our workers do not want food stamps, our workers do not want unemployment; what they want is to work. So, if you can help us by passing this legislation, you can send the food stamps to China and Taiwan, and you can help bring back the bundles to this country, so once again the garment workers can be a proud group and be an important part of this country.

Thank you very much.

Senator HEINZ. Ms. Marazita, thank you.

Ms. Chin.

[Ms. Marazita's written testimony follows:]

ANNE MARAZITA
118 Rich Ave.
Mt. Vernon, N.Y. 10550

September 12, 1985

Members of the United States Senate:

I would like to take this opportunity to thank you for allowing me to speak at these hearings regarding the garment and textile industry.

My name is Anne Marazita. I am a sewing machine operator and I work at Nancy Fashions, a bridesmaid and gown factory in New Rochelle, N.Y. I started in the garment industry in 1933, 52 years ago. I have watched many changes take place in my industry. In the early 1940's our industry flourished as immigrants came to this country seeking work. The industry provided an easy means to earn a living because one did not need to speak or understand English. Immigrants came here with some basic skills, ready to learn, ready to work. They were young and optimistic. The garment industry provided for many many years a decent wage for these people and through the years they have been able to raise their families. Many of their children have gone on to college and some have become doctors or entered other professions. In the late 1940's Westchester County reached its peak. It had 150 factories employing approximately 5,000 workers. However, by the mid 1960's I noticed we were losing workers and shops as well.

From 1973 through 1983 we lost 1800 jobs in Westchester and Rockland Counties. The loss of these jobs were attributed to imports entering our borders from countries such as Taiwan, Bangladesh, India and countries that even today, I do not know their location on the map but I do know they send in their goods because of their cheap wages and subsidies many of their governments give them.

Back in 1983 we asked our government to help us. We held rallies all over the United States and had resolutions passed, but nothing has been done. We told our government that additional workers would be lost and unfortunately, this proved true. From January 1985 to the present, in my area we have lost an additional 600 jobs in just six months. There are but 1200 workers left in the Westchester/Rockland counties area, and their future is dismal. These workers range in age from 20 to 70 years. Most of them in their 50's or 60's. When they lose their jobs and go to unemployment they are told to look for some other type of work. Senators, tell me, what should a 50 year old Portugese woman do, who has no high school education, or speaks a minimal amount of English and is supporting or at least helping to support a family with today's high cost of living? Should she apply with I.B.M. or Union Carbide to work as a computer operator or as a cleric? I think you will agree this is not a reasonable expectation. Most of these companies would not hire such applicants and to retrain these displaced workers in those industries is virtually impossible.

However, these workers want to work. These workers want to earn a living. They do not want to fall into the so-called "Safety Net." They don't want to go on welfare. But, they might be forced to do so. The rest of the community who work, the rest of the country who work, will end up having to support these people. This seems like a very foolish system. What are the workers in my industry asking for? They are asking for an opportunity to work 50 weeks a year. They want to be able to put food on the table, buy nice clothing, go on vacation once in a while, go out to dinner occasionally. These are not high expectations. These are what many people who land on our shores look for from this country. People who come to America now, be it from China, from Taiwan, from Portugal, from anywhere, do not come here believing they will become rich. They come here with the will to work, as they have done in the 1930's and 1940's hoping to find a garment industry or an industry like it that will not require them to immediately learn English or have a college diploma. If this industry is not helped now, it will virtually disappear.

The future Americans who will be entering this country will find no work. And, the ones who are now helping to build the cities and the towns, will find themselves on welfare. It is a sad comment today, that workers who only want to work, cannot find this because our government allows countries who pay sub-human wages to dump their goods on our shores. Our workers do not want food stamps. Our workers do not want unemployment. What they want is to work. So, if you can help us by passing this legislation, you can send the food stamps to China and Taiwan and you can help bring back the bundles to this country so once again, the garment workers can be a proud group and be an important part of this country.

Thank you very much.

Name: Anne Marazita

Occupation: Sewing Machine Operator
President, Lower Hudson District Council

STATEMENT OF WING FONG CHIN, FUTURISTIC FASHIONS, NEW YORK CITY, NY, ON BEHALF OF THE INTERNATIONAL LADIES' GARMENT WORKERS' UNION

Ms. CHIN. My name is Wing Fong Chin. I am a worker at Futuristic Fashions in New York City's garment industry. I am here to urge you to vote for the Textile and Apparel Trade Enforcement Act. Your vote will help to save my job and the jobs of other recent immigrants who work in the garment industry.

I want you to understand how difficult it is for an immigrant from an Asian country to find work in America. The laws and customs are so different. If you don't speak English, there is almost no place outside of Chinatown where a Chinese immigrant can get a job. Very often, the only choice someone like myself has is to work in a Chinese restaurant or in a garment shop. Even if you have a professional degree or special training, it is extremely difficult. There are many, very educated people who work in the garment industry in order to survive. Their years of schooling are wasted, because they can't speak English and don't have the right degree. But everyone can find a job in a garment shop.

Wages are extremely low, yet we manage to raise our families. We want to see our sons and daughters have what we cannot have, an education, a profession, a good steady job, and a home of their own. A large percentage of our children go on to college, and we are very proud of the fact that many children of the garment workers are attending the top schools—Harvard, Yale, and MIT.

I want to ask you: If you let imports destroy the garment industry, where will people like myself find work? How will we be able to provide for our families? Each year more immigrants arrive from China, Taiwan, Korea, Cambodia, and Hong Kong. What will they do if there is no American garment industry?

Please understand that we are not asking for special favors. We don't want handouts or welfare. All we are asking for is the chance to earn a living. It is very hard right now, but it is not impossible.

But if you ignore us, the message you will send is that there is no room in the United States for people like myself. Please vote to save our jobs.

Thank you.

Senator HEINZ. Ms. Chin, thank you very much.

[The prepared statement of Wing Fong Chin follows:]

STATEMENT

My name is Wing Fong Chin. I am a worker at Futuristic Fashions in New York City's Garment Industry.

I am here to urge you to vote for the Textile and Apparel Trade Enforcement Act. Your vote will help to save my job and the jobs of other recent immigrants who work in the garment industry.

I want you to understand how difficult it is for an immigrant from an asian country to find work in America. The laws and customs are so different. If you don't speak English, there are almost no places outside of Chinatown where a Chinese immigrant can get a job. Very often, the only choice someone like myself has is to work in a chinese restaurant or in a garment shop.

Even if you have a professional degree or special training, it is extemely difficult. There are many very educated people who work in the garment industry in order to survive. Their years in schooling are wasted because they can't speak English and don't have the right degree. But everyone can find a job in a garment shop.

Wages are extremely low, yet we manage to raise our families. We want to see our sons and daughters have what we cannot have -- an education, a profession, a good steady job and a home of their own. A large percentage of our children go on to college, and we are very proud of the fact that many children of garment workers are attending the top schools -- Harvard, Yale, MIT.

I want to ask you: If you let imports destroy the garment industry, where will people like myself find work? How will we be able to provide for our families?

Each year, more immigrants arrive from China, Taiwan, and Hong Kong. What will they do if there is no American Garment industry?

Please understand that we are not asking for special favors. We don't want hand-outs or welfare. All we are asking for is the chance to earn a living. It is very hard right now, but it is not impossible. But if you ignore us, the message you will send is that there is no room in the United States for people like myself. Please vote to save our jobs. Thank you.

Senator **HEINZ**. Senator Matsunaga.

Senator **MATSUNAGA**. Thank you, Mr. Chairman.

As the son of an immigrant laborer who worked in Hawaii for 75 cents a day and then $1 a day, and one who worked in the cane fields and the pineapple fields from the age of 12, I can sympathize definitely with the garment workers of America today, particularly with the lady garment workers, because my mother used to carry her infant children on her back while working out in the pineapple fields and sugar cane fields.

It seems to me that Ms. Quintanilla perhaps suggested something that we should take up nationwide; that is, a Buy American Program. If the Prime Minister of Japan can say "buy foreign goods in order to help reduce the deficit," at least we can say to all Americans "buy American to save American jobs," and in many instances as was the case with the lady who had a heart attack, to save American lives, even.

Would you support a national program of "Buy American?" Let's say we proclaim 1986 a buy American year and have the President proclaim Buy American, and have the Congress pass a resolution to that effect, so that Americans throughout this country can become conscious of what you are going through now? Not so much just to say buy American, but to make every American citizen conscious of what is going on in this country?

Many people don't know that Americans are suffering the way they are suffering.

I will go right down the list. Mr. Li, would you support such a plan?

Mr. **LI**. Yes, sir, I support it. At least make more opportunity for more American citizens who are working for them.

Senator **MATSUNAGA**. Mr. Merl.

Mr. **MERL**. Senator, I certainly would support that.

Senator **MATSUNAGA**. Mr. Moore.

Mr. **MOORE**. I would support it, but I don't consider it a substitute for the current bill.

Senator **MATSUNAGA**. Ms. Reed.

Ms. **REED**. I agree. I would support it. But we need an import bill, also.

Senator **MATSUNAGA**. Ms. Kuhns.

Ms. **KUHNS**. I believe that is a start, but only a start. It is the jobs we've got to save, before it's too late.

Senator **MATSUNAGA**. All right.

Ms. Quintanilla.

Ms. **QUINTANILLA**. Yes, I support it.

Senator **MATSUNAGA**. Ms. Chin.

Ms. **CHIN**. I support it, but, more importantly, stop the imports.

Senator **MATSUNAGA**. Ms. Marazita.

Ms. **MARAZITA**. Yes, I will support that; but I just would like you to know that we do have and have had rallies throughout the country stating "buy American-made garments." We have had leaflets and everything has been given out. So I think a lot of people do know about it.

Senator **MATSUNAGA**. Well, basically, as I see it, because American consumers continue to buy foreign products in preference to American-made goods, foreign manufacturers are able to sell their products in America. We must realize that America is the only free market of the world. I know from good authority, no less than Senator Long, who just returned after touring some of the factories in Korea, that they are building factories there for the specific purpose of manufacturing goods for American consumers. So long as American consumers continue to purchase foreign goods in preference to American goods, foreign manufacturers are going to be able to sell their products in America to depress our domestic industries.

So, I think it is so important that Americans realize that, in order to keep American workers on the job, we have got to buy American goods whenever and wherever possible. For that matter, I have always driven American-made cars, despite all the mechanical problems I've had with them. So, they can't accuse me of helping the foreign economy.

I'm sorry I must leave now. I wish I could stay, but I was just handed a note reminding me that I am already late for my next meeting.

Ms. **Kuhns**. Before you leave, Senator, I would like to make a comment. Those thousand ex-Arrow workers in Shamokin that lost their jobs, they would dearly love to have those jobs as cops that you were talking about earlier. [Laughter.]

Senator **Matsunaga**. Maybe they would make better cops than those we have now.

Ms. **Kuhns**. They will be good ones, because they lost their jobs because of imports.

Senator **Matsunaga**. Thank you.

Senator **Heinz**. Thank you, Senator Matsunaga.

I would just observe, before I call on Senator Bradley, that on Tuesday we will be having a markup of the budget reconciliation bill. A number of us, I think, have argued that one way to improve the protection of jobs from imports is to have sufficient Customs inspectors. And a number of us, certainly myself, will be pushing for an amendment to increase the number of Customs inspectors by 800 when we get into markup next week, and I fully expect that to pass, because the revenue estimate that we will gain by employing those additional cops is over a billion dollars of additional revenue through better Customs collections.

So, it is short of the thousand, Ms. Kuhns, but it is a start.

Ms. **Kuhns**. It is a start.

Senator **Heinz**. But it is not a substitute for this legislation.

Senator Bradley.

Senator **Bradley**. Thank you very much, Mr. Chairman.

I simply want to thank the entire panel for what I think was powerful testimony, in large part because it was personal testimony. I regret that there weren't more members in the committee room to hear your testimony, and I assure you that if we are going to embrace change as a country, change in some cases that is very exciting and innovative, we have to be concerned about the lives of those people who are affected by that change in ways that is not always positive. And I think that that responsibility is important for us to assume. I believe we will, and I think your testimony was enormously helpful in letting us sense the need for some kind of action in each of your individual circumstance.

So, I thank you for your testimony.

Senator **Heinz**. Thank you, Senator Bradley.

I have one question. Every time an industry or workers ask for protection from the Congress, critics of that request often say, "Well, the people who are asking are very overpaid, unproductive workers. They don't work hard. They earn $15, $20, $25 an hour. Somehow they have had it too good; they have had it too fat." I am making Senator Chafee's speech for him, and he has made it on many occassions.

What are the wages in this industry? Are they $15 or $20 an hour?

Ms. Kuhns.

Ms. **Kuhns**. At our own Lewistown plant, at the time it closed, the plant average was $5.41 an hour. At the Elysburg, PA plant the average was $5.61 an hour. And that certainly isn't a high wage with today's economy and the prices when we go out to buy our groceries.

Senator **Heinz**. Now the minimum wage is $3.50 an hour.

Ms. **Kuhns**. $3.35.

Senator **Heinz**. Excuse me, $3.35 an hour.

How long would you say the average employee had been working at either of those establishments.

Ms. **Kuhns**. More than 35 percent of those workers were over 50 years old. I would say many of them had anywhere from 20 to 35 years. They were in the majority.

Senator **Heinz**. So, maybe the average amount of seniority there was, say, in the neighborhood of 10 years?

Ms. **Quintanilla**. Oh, more than that.

Ms. **Kuhns**. Yes; or better.

Senator **Heinz**. Or better?

Ms. **Kuhns**. Or better.

Senator **Heinz**. I am trying to be on the conservative side.

What you are saying is that, after working 10 years, 15 years, 20 years, in some cases more, those workers were earning maybe, as much, on the average now, as $2 more than the minimum wage, which hasn't been raised since I don't remember when.

Ms. **Kuhns**. Since Jimmy Carter.

Senator **Heinz**. Since Jimmy Carter. [Laughter.]

Ms. **Kuhns**. And, thank him. We got three raises under Carter, and nothing since.

Senator **Heinz**. And where is he today? [Laughter.]

Ms. **Kuhns**. Yes; right. We could use him. We could use a higher minimum.

Senator **Heinz**. Ms. Marazita, I can't believe this, but you said—and your looks belie it—that you started work in 1933?

Ms. **Marazita**. Yes; in 1933, and I worked for 52 years on and off, according to the season that we had. You know, it is not steady work, so there are times when you work maybe 2 days a week and sometimes you work 4 days a week. But the only time I took out was when I had my daughter, 1 year, and that was it. But I have been working since then.

Senator **Heinz**. Are you a pieceworker?

Ms. **Marazita**. I am a strict pieceworker. I do not get $20 an hour; I get what I work for.

Senator **Heinz**. So you would say you are one of those productive workers? You earn it, and you have been working for all those years.

Ms. **Marazita**. That's right. I have to work to earn it, if it is there. But if the bundles are not there, I am not there, I am not earning it.

Senator **Heinz**. Does anyone else want to make a comment? Mr. Moore?

Mr. **Moore**. I would like to say that the Department of Labor statistics that they publish show that the average wage in the garment industry is under $6 an hour. Thank you.

Senator **Heinz**. I think that makes the point.

Mr. Merl.

Mr. **Merl**. Senator, the average wage in our plant is around $6 an hour, and I would say the average length of employment is about 20 years for the average worker.

Senator **Heinz**. Is about how many years?

Mr. **Merl**. About 20 years with the firm.

Senator **Heinz**. $6 an hour, for 20 years.

Mr. **Merl**. Right. And that is piecework.

Ms. **Quintanilla**. That's piecework.

Senator **Heinz**. No one, I don't think by any definition, could say that workers in the garment and apparel industries are overpaid.

Mr. **Merl**. Not by any means.

Senator **Heinz**. Do any of the workers think they are overpaid?

Ms. **Kuhns**. No.

Ms. **Quintanilla**. No.

Mr. **Merl**. And we still can't compete.

Ms. **Kuhns**. And there are a lot of times that there are materials that are very difficult to handle. And although you can make maybe $5 or $6 per hour 1 week, you may be working for $3.35 per hour the next week. Sometimes they can't even make minimum if the work is hard to handle. But they work hard for their money.

Senator **Heinz**. Every time I visit a garment or apparel mill or shop in my home State of Pennsylvania, each time I am there I try to sit down and do at least one of the jobs. And often I have an owner or a foreman who is courageous enough to let me mess up a garment or two, and somebody on piecework who is generous enough to move aside for a few minutes while I absolutely take bread out of their mouths until I see for myself how hard some of those operations can be. At the same time, people who are working there do it as if it is magic.

To those of you who are still working, I promise not to come and visit your shop and mess up your piecework.

Thank you all very much.

One thing. Congressman Ben Gilman is here someplace. Oh, there you are, Ben. I know you have one constituent you would like to introduce.

Mr. **Gilman**. I appreciate the opportunity to appear before the committee. I regret that I wasn't here earlier when my constituent Mr. Merl, of the 38-year-old Tarrytown Garment Co., testified. We were engaged in House business.

You have heard a goodly number of the same textile and apparel workers and manufacturers who appeared before our congressional textile caucus just yesterday, focusing on the ravaged textile and apparel industry problems.

Recent studies, Mr. Chairman, have showed us that in 1984, some 46,000 domestic textile and apparel jobs were lost to imports. And to date, in 1985, we estimate that there are some 66,000 American jobs that have been lost in the same industry.

As 1 of the 291 cosponsors of H.R. 1562 in the House—the companion measure, as you know, to legislation that has been introduced by Senator Moynihan and Senator Thurmond, S. 260, herein the Senate, the Textile and Apparel Trade Enforcement Act—we are encouraged by the President's pledge earlier this week to place trade legislation on the front burner. And we hope that this committee and the Senate will continue to work with the House in a bipartisan effort to return fairness and prosperity to the ailing textile and apparel industries.

Mr. Chairman, it is anticipated that our House measure will be reported out of the House Ways and Means Committee by the end of September and will be on the floor for early consideration, and we hope that you will have the same good fortune over here in the Senate.

I thank you for the opportunity to appear today.

Senator HEINZ. Congressman Gilman, you have been a good friend of this industry over the years, going back to when I served with you in the House, and we are delighted to have you over here. I am not at all surprised to see you working very hard on behalf of not only your constituents but this vital industry, and I commend and congratulate you.

Mr. GILMAN. Thank you, Senator, and we do miss you over in the House.

Senator HEINZ. When I moved, the House Members said it improved the intelligence of both bodies; I have been trying to get my colleagues here to agree to that.

There is one last question I have. It goes back to the fact that in 1974, when Congress implemented by legislation what was then called The Tokyo Round, we renewed and strengthened a program called Trade Adjustment Assistance, or Trade Readjustment Assistance. It consisted of help for workers, training and job search allowances, and a kind of extended unemployment compensation program and help for firms. I am just wondering if any of you have received any assistance under the Trade Adjustment Assistance Program? Because the notion was, if you are going to have free trade, there are going to be some casualties, some serious ones, taken in the change that Senator Bradley has described, through free trade, and there needs to be a safety net to catch those who may be pushed off the rung of a ladder that they are trying very hard to climb.

Ms. Kuhns.

Ms. KUHNS. It is more than a safety net, Senator Heinz. A lot of these people, because of imports, they were getting days off, they were working not an 8-hour day because there wasn't enough work. And by the time a plant closes, almost all of their unemployment is drawn out, with sometimes only 2 or 3 weeks left. And even with trade adjustment—it is a wonderful thing, but sometimes they have to wait. Like, now, the Arrow Co.—an application was filed by the Amalgated Union for them, and it was approved. Some of them waited 5 and 6 weeks before they got a check on trade adjustment assistance. They are very, very grateful for it; they couldn't survive without it. But it was awfully hard waiting that 5 or 6 weeks until they started getting their checks.

There is a woman here today, Jenny Daniels, who was one of them who had to wait. She has lost her job for the fourth time now because of imports. She is 60½ years old, and she doesn't know what she is going to do until she gets to be 62. But at least trade adjustment assistance is helping her for now. And until they have a chance to look around, it is a true blessing.

Senator **HEINZ**. Trade adjustment assistance will expire on September 30, just 2½ weeks from now, unless we in Congress do something about it.

Ms. **KUHNS**. We are praying hard that they will.

Senator **HEINZ**. Thank you.

Thank you all very much.

[Congressman Gilman's written statement follows:]

GILMAN SEEKS LIMITS ON TEXTILE IMPORTS

WASHINGTON, DC.—Rep. Benjamin A. Gilman [22nd District—New York] today renewed his pledge to America's textile and apparel workers and manufacturers to carry their fight for jobs and domestic production through the U.S. House of Representatives.

"The time has finally come where we must demand that free trade be fair trade", Rep. Gilman told the Congressional Textile Caucus. The Caucus heard testimony from textile and apparel workers from various regions of the country on the disastrous effect imports have had on our domestic apparel and textiles industries. Speakers sharing their stories with the Congressional Textile Caucus included several mayors, a California cotton farmer, seamstresses from small towns in the Northeast, as well as two manufacturers from the 22nd Congressional District in New York.

Mr. Murray Merl, President of the 38 year-old Tarrytown Garment Company, told the assembled Members of Congress, "The problems Tarrytown Garment has been suffering over the past 5 years, have not been caused by lack of effective management or obsolete equipment. Rather they have been caused by ineffective control of imports which have taken over the major portion of the garment manufacturing market."

Warren Levin, President of New City Sportswear in Haverstraw, New York, at one time employed as many as 200 people in a village of 7,000. Mr. Levin told the Caucus, "After more than 45 years of continuous business activity the firm was forced to cease operations. The socio-economic displacement to the workers and to the community has been catastrophic." In speaking of the inability of current U.S. trade policy to meet the ever-changing needs of our domestic apparel manufacturers Mr. Levin noted, "Given the wage differential that exists between this nation and our foreign competitors, U.S. manufacturers will continue to remain uncompetitive no matter how rapidly or completely we modernize."

The major focus of the Textile Caucus' meeting was support for H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985. This legislation would restore the U.S.'s rightful share of its own market, while imports would be maintained at a comfortable 38 percent of the marketshare with an opportunity to increase imports each year thereafter. Stated Rep. Gilman, "As a co-sponsor of H.R. 1562, I am pleased to note the strong bi-partisan support for an effective, sensible trade policy. This legislation enjoys the endorsement of 291 Members of Congress; Members representing both sides of the aisle, from all regions of the country. I am hopeful that we will be able to bring this bill before the full House post-haste and that the Senate will act accordingly."

In closing Rep. Gilman noted, "It is imperative that we regain a level-playing field for the American worker. I commend the Caucus for their diligence in shaping a sound trade policy and I am joining with my colleagues in their efforts to adopt this legislation."

Senator **Heinz**. Would our next panel please come forward and take their seats?

[Pause.]

Senator **Heinz**. Ladies and gentlemen, there is a vote on the floor. The Chair is going to recess for about 10 minutes so that the Chair and the other members of the committee may record themselves.

Thank you very much. We will recess for 10 minutes.

[Whereupon, at 5:23 p.m., the hearing was recessed.]

AFTER RECESS

Senator **Heinz**. The committee will come to order.

The committee will observe the 3-minute rule without exception.

I welcome a panel of Mr. Mark Markovich, Mr. Gerry Pike, Mr. Jack Shamash, and Mr. Howell Woltz.

Mr. **Weinberg**. Excuse me, Mr. Chairman. I am sitting in, Sidney Weinberg, for Mr. Shamash.

Senator **Heinz**. You are a substitute for Mr. Shamash. I thank you very much.

Mr. **McLean**. Mr. Chairman, my name is McLean. I am a substitute for Mr. Woltz, also.

Senator **Heinz**. Very well. I was working off an old witness list; thank you very much.

Our first witness is Mr. Markovich.

Mr. Markovich, please proceed.

Mr. **Markovich**. And I am Mr. Markovich.

Senator **Heinz**. Two out of four? Not bad. [Laughter.]

Mr. **Markovich**. Not too bad, sir.

STATEMENT OF MARK MARKOVICH, PRESIDENT, WELSH SPORTING GOODS, IOWA FALLS, IA, ON BEHALF OF THE LUGGAGE & LEATHER GOODS MANUFACTURERS OF AMERICA, INC., ACCOMPANIED BY STANLEY NEHMER, PRESIDENT, ECONOMIC CONSULTING SERVICES INC.

Mr. **Markovich**. My name is Mark Markovich. I am president of Welsh Sporting Goods in Iowa Falls, IA—and that is the Midwest.

We are solely domestic manufacturers of luggage, sporting goods, and art cases constructed totally from man-made fiber and cotton materials. Our products are marketed under the trade name Boyt, and we presently have 165 employees. We are one of the few manufacturing enterprises in an otherwise farming community.

I also serve as vice president and a director of the Luggage & Leather Goods Manufacturers of America, on whose behalf I appear hear today.

The association represents virtually all domestic firms in the luggage, business case, and flat goods industry. Our members manufacture these items from textile materials as well as leather, vinyl, or plastic. Some of our members also import these products.

Textile products manufactured by our industries are covered by the MFA. Our association supports S. 680, but with an amendment that takes into account the relatively recent coverage of textile luggage and flat goods under the MFA.

The association asks your support for an amendment to S. 680 that would affect only those textile luggage and flat goods under quota as of the date of enactment of the bill. For these products, the amendment shifts the base year of the quota for the major exporting countries, which in the legislation is 1980, to the date of enactment of the legislation.

Currently, the only quotas in effect are man-made fiber luggage and flat goods from Taiwan, and man-made fiber luggage from Korea. All other provisions of S. 680 would apply.

This amendment is necessary because of the unique circumstances of the luggage and flat goods industry relative to the rest of the textile/apparel sector. The textile import program is new to our industry. Our products were added to those covered by MFA only in 1982. Before that time there were simply insufficient volumes of man-made fiber luggage and flat goods to warrant attention under the MFA. The tremendous growth in imports of man-made fiber luggage and flat goods occurred in 1983 and 1984. The first quotas on textile luggage and flat goods under the MFA went into effect just last year; therefore, application of the formula in S. 680 would result in massive cutbacks of imports of man-made fiber luggage and flat goods from Taiwan and Korea, as much as 60 and 75 percent, respectively.

The proposed quota base in the amendment is consistent with the intent of the legislation, in that it provides the kind of orderly import growth comtemplated by the MFA as renewed in 1981.

We cannot be unmindful of the impact that the current formula of S. 680 would have on those of our members who began to import before any restraints were imposed on Taiwan or Korea, or indeed before any restraints were thought possible under the MFA.

Many manufacturers have done so to round out or complete a product line.

The amendment will provide a less disruptive and more equitable transition to the quota restraints called for in S. 680. Our membership supports the need for such restraints, but we ask that they be done in a reasonable way. The amendment provides a transition period which may allow those in our industry who have import operations to gradually phase in or increase their domestic manufacturing of textile luggage and flat goods.

Due to the fact that importing often provides the revenue to help support domestic manufacturing operations, we believe that without the amendment these businesses could be so crippled by the massive cutbacks under the quota formula of S. 680, that the only alternative open to them may be to close their domestic operations. In effect, our proposed amendment would prevent disruption in the marketplace. At the same time, it would help create new jobs in the industry.

It is our understanding that no other textile or apparel segment or product would be faced with such a massive reduction in import levels by applying the quota formula using 1980 as a base with respect to the major exporting countries. Thus, we are urgently requesting your support for S. 680 with an amendment which adjusts the base year for textile luggage and flat goods for the major exporting countries.

Thank you very much for your time.

Senator HEINZ. Thank you very much.
Mr. Pike.
[Mr. Markovich's written testimony follows:]

Summary Statement of

LUGGAGE AND LEATHER GOODS MANUFACTURERS OF AMERICA, INC.

Presented By Mark Markovich

September 12, 1985

Our Association supports S. 680, the Textile and Apparel Trade Enforcement Act of 1985, but with an amendment that takes into account the relatively recent coverage of textile luggage and flat goods under the MFA.

The LLGMA asks your support for an amendment to S. 680 that would affect only textile luggage and flat goods. For these products the amendment shifts the base year of the quota for the major exporting countries (which, in the legislation, is 1980) to the date of enactment of the legislation. This shift would affect solely those textile luggage and flat goods quotas in effect at the time of enactment of S. 680; currently these quotas are only on man-made fiber luggage and flat goods from Taiwan and man-made fiber luggage from Korea. All other provisions of S. 680 would apply.

This amendment is necessary because of the unique circumstances of the luggage and personal leather goods industries relative to the rest of the textile/apparel sector. Our products were added to those covered by the MFA only in 1982. The first quotas on textile luggage and flat goods under the MFA went into effect just last year. Therefore, application of the formula in S. 680, which uses 1980 as a base for major exporting countries, would result in massive cutbacks of imports of man-made fiber luggage and flat goods from Taiwan and Korea. We estimate that imports of man-made fiber luggage from Taiwan would be cut back by 60 percent and imports of the same product from Korea by 75 percent if the formula in S. 680 is applied. It is our understanding that no other textile or apparel segment or product would be faced with such a massive reduction in import levels by applying the quota formula using 1980 as a base with respect to the major exporting countries.

The proposed quota base in the amendment is consistent with the intent of the legislation in that it provides the kind of orderly import growth contemplated by the MFA as renewed in 1981. The amendment corrects what we believe was an unintentional inequity in S. 680 by establishing a quota base more in keeping with the purpose of the legislation. Such an amendment recognizes the unique situation involving luggage and flat goods, and, as such, does not establish a precedent for other requests for exceptions which might be made.

Statement of

LUGGAGE AND LEATHER GOODS MANUFACTURERS OF AMERICA, INC.

Presented By

Mark Markovich
President
Welsh Sporting Goods Corporation
Iowa Falls, Iowa

To The
Subcommittee on International Trade
Senate Finance Committee
United States Senate

On S. 680
The Textile and Apparel Trade Enforcement Act of 1985

September 12, 1985

This statement is made on behalf of the Luggage and Leather Goods Manufacturers of America, Inc. (LLGMA), the trade association representing virtually all domestic firms in the luggage, business case, and personal leather goods industry. Our members manufacture these items from a variety of materials, primarily textile materials of man-made fiber (mostly nylon) and cotton, and from leather, vinyl or plastic. Some of our members also import these products. Textile products manufactured by our industries are covered by the Multifiber Arrangement (MFA).

Our Association supports S. 680, the Textile and Apparel Trade Enforcement Act of 1985, but with an amendment that takes into account the relatively recent coverage of textile luggage and flat goods under the MFA.

The LLGMA asks your support for an amendment to S. 680 that would affect only textile luggage and flat goods. For these products the amendment shifts the base year of the quota for the major exporting countries (which, in the legislation, is 1980) to the date of enactment of the legislation. This shift would affect solely those textile luggage and flat goods quotas in effect at the time of enactment of S. 680; currently these quotas are only on man-made fiber luggage and flat goods from Taiwan and man-made fiber luggage from Korea. All other provisions of S. 680 would apply.

This amendment is necessary because of the unique circumstances of the luggage and personal leather goods industries relative to the rest of the textile/apparel sector. The textile import program is new to our industry. Our products were added to those covered by the MFA only in 1982. Before that time, there were simply insufficient volumes of man-made fiber luggage and flat goods to warrant attention under the MFA. The tremendous growth in imports of man-made fiber luggage and flat goods occurred in 1983 and 1984. The first quotas on textile luggage and flat goods under the MFA went into effect just last year. Therefore, application of the formula in S. 680, which uses 1980 as a base for major exporting countries, would result in massive cutbacks of imports of man-made fiber luggage and flat goods from Taiwan and Korea. Since S. 680 would use as a base year a year in which imports of man-made fiber luggage and flat goods were not considered covered by the MFA, we estimate that imports of man-made fiber luggage from

Taiwan would be cut back by 60 percent and imports of the same product from Korea by 75 percent if the formula in S. 680 is applied.

Moreover, using 1980 as a base year would require substantial estimation as to the actual level of imports in that year, since the U.S. Government did not begin to collect data on the quantity of such imports until May 1982.

The proposed quota base in the amendment is consistent with the intent of the legislation in that it provides the kind of orderly import growth contemplated by the MFA as renewed in 1981. The amendment corrects what we believe was an unintentional inequity in S. 680 by establishing a quota base more in keeping with the purpose of the legislation.

We cannot be unmindful of the impact that the current 1980 base year for the major exporting countries of S. 680 would have on those of our members who began to import before any restraints were imposed on Taiwan or Korea, or, indeed, before any restraints were thought possible under the MFA. Many manufacturers have done so to round out or complete a product line. The amendment will provide a less disruptive and more equitable transition to the quota restraints called for in S. 680. Our membership supports the need for such restraints, but we ask that they be done in a reasonable way. The amendment provides a transition period which may allow those in our industry who have import operations to gradually phase in or increase their domestic manufacturing of textile luggage and flat goods. Because importing often provides revenue to help support domestic manufacturing operations, without the amendment, these businesses could be so crippled by the massive cutbacks under the current quota formula of S. 680 that the only alternative open to them may be to close their domestic operations. In effect, our proposed amendment would prevent disruption in the market place. At the same time it would help create new jobs in the industry.

It is our understanding that no other textile or apparel segment or product would be faced with such a massive reduction in import levels by applying the quota formula using 1980 as a base with respect to the major exporting countries. Thus we are urgently requesting your support for an amendment which adjusts the base year for textile luggage and flat goods for the major exporting countries. Such an amendment recognizes the unique situation involving luggage and flat goods, and, as such, does not establish a precedent for other requests for exceptions which might be made.

IMPORT GROWTH IN TEXTILE LUGGAGE AND FLAT GOODS

Imports of textile luggage and flat goods, like imports of other textile products have experienced an astounding growth in recent years. Overall, textile and apparel imports grew by 32 percent in 1984, following a 25 percent increase in 1983. Imports of textile luggage by comparison, jumped by almost 50 percent between 1983 and 1984 alone.

Luggage of man-made fibers accounts for the vast majority of textile luggage imports. Imports of man-made fiber luggage in 1984 represented about 281 million square yard equivalents, according to Department of Commerce data. Taiwan and Korea combined accounted for about 90 percent of the man-made fiber textile luggage imported into the United States in 1984. During this period of incredible import growth, U.S. market demand grew to some extent, but imports captured all of the market growth and more.

Overall, import penetration for luggage of all materials is currently estimated to be about 55 percent.

U.S. imports of textile flat goods, while not as large as imports of luggage, have followed a similar pattern of large growth. In dollar terms, imports in 1984 were more than double the level that existed in 1980.

In terms of pounds, imports of man-made fiber textile flat goods grew from an estimated 4.2 million pounds in 1982 to 6.7 million pounds in 1984, an increase of 60 percent. Taiwan alone accounts for about 55 percent of the textile flat goods imported into the United States.

The U.S. market for textile flat goods, and specifically for nylon wallets, was developed by U.S. manufacturers entering the market with an innovative product. The product

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was rapidly copied by suppliers from the Far East, particularly Taiwan. Thus, the import growth came largely at the expense of domestic production. The result has been virtually a complete loss of U.S. market share to imports.

Overall, import penetration in the market for flat goods of all materials is currently estimated to be about 35 percent.

IMPORT RESTRAINTS ON MAN-MADE FIBER TEXTILE LUGGAGE AND FLAT GOODS

The LLGMA has sought a solution to the growing import problem affecting its members' textile products through the Multifiber Arrangement. In 1984, man-made fiber textile luggage from Taiwan and Korea and man-made fiber flat goods from Taiwan were placed under restraint. The import levels originally imposed represented the normal restraint formula used by the Administration -- import levels based on the first twelve of the last fourteen months prior to the month in which the call is made. As is often the case when a new product is brought under restraint for the first time, there was considerable disruption in the market during 1984. However, as the 1985 import restraint levels were agreed upon, market uncertainty was replaced by certainty as to the level of imports in 1985. The level of man-made fiber textile luggage imports under the bilateral agreements in 1985 represents a substantial reduction in imports from 1984 levels.

CONCLUSION

The LLGMA wishes to reiterate its support of the Textile and Apparel Trade Enforcement Act of 1985. Our proposed amendment is not to exempt textile luggage and flat goods from the provisions of the bill, but merely to take into consideration the unique circumstances of these products in determining a base year for the quotas.

We urge the Subcommittee to give its support to S. 680, but at the same time, to accept the modification proposed by the LLGMA limited to luggage and flat goods from countries under quota.

STATEMENT OF GERRY PIKE, VICE PRESIDENT, ROYAL SILK, LTD., CLIFTON, NJ, ACCOMPANIED BY PAK MELWANI, PRESIDENT, ROYAL SILK, LTD.

Mr. PIKE. Mr. Chairman, I am Gerry Pike, and together with my colleague Pak Melwani I represent Royal Silk, Limited, the Nation's largest ready-to-wear silk clothier.

We understand and sympathize with the problems that some of our colleagues in the textile industry are facing and that Senate bill 680 attempts to redress.

We have just witnessed on the previous panel some poignant stories. We do not want to see a repeat of such human tragedy in our silk industry.

We oppose Senate bill 680 because we are convinced that many of the remedies proposed, particularly those relating to silk, are shortsighted and will cause serious damage to to silk industry.

First, I would like to address the question of why silk should not be included in this measure at all. The silk industry in the United States is virtually nonexistent. There is no sericulture industry here, no silk fabric is woven here, and the dying of silk cloth is insubstantial, as is silk garment manufacturing. The kind of highly specialized hand labor that silk requires does not exist in this country.

Restricting the importation of silk into the United States cannot be justified on the basis of a threat to domestic jobs. The threat does not exist, because the jobs do not exist.

There are some who claim that silk should be restricted so that consumers will be forced to buy garments of other domestic fabrics—not domestic silk fabrics, but other entirely different fabrics, particularly synthetic imitations. Frankly, this is akin to restricting the importation of diamonds to protect the domestic costume jewelry industry. To invert a familiar expression, it's like trying to turn a silk purse into a sow's ear.

It is indefensible to deprive the American public of opportunity to buy the genuine article so as to protect producers of a lesser imitation. There is in fact no direct substitute for silk. There is no disputing the fact that silk is different in feel and wear and use from any other fabric.

That fact is, silk imports have, de facto, been restricted and for an extended period. Since the founding of the People's Republic of China until this decade, silk was a victim of the trade embargo against China. Since China produces 75 percent of the world's silk, the American public was effectively denied access to silk products. Only when most-favored-nation status was granted the People's Republic of China in 1980 did the average American once again enjoy the opportunity to own this luxury fiber.

It is true that imports of silk garments have grown significantly on a percentage basis between that year and this, but that is not surprising; any increase from a zero base will seem dramatic. The total number of silk garments in this country is miniscule vis-a-vis all garments of other fibers. In fact, in my discussions with the Industrial Assessments Division of the Office of Textiles of the Census Bureau, I was informed that they consider the comsumption of silk fabric and apparel so small as to be without effect on the annual total apparel consumption figure.

Imports of silk in dollars before wholesale markup represented about eight-tenths of 1 percent of the wholesale dollar amount of apparent consumption of apparel in the United States for 1984. Mill consumption of U.S. silk imports equals only eight thousandths of 1 pound per capita, or only about one-tenth of an ounce for each of our citizens.

Pound deliveries of raw silk to the United States for 1983, represented only nine-tenths of 1 percent of the unmanufactured wool imported, and less than seven-hundredths of 1 percent of imported manmade fiber production. It represented seven-thousandths of 1 percent of domestic manmade fiber production. Certainly, not enough silk is available to be considered a threat to any domestically manufactured apparel as a substitute fiber.

The fact is, silk imports have decreased, and decreased substantially from prewar levels. Prior to the establishment of the People's Republic of China, China exported 3,000 tons of silk to the United States annually. Today it averages but 300 tons, a precipitous 90-percent drop.

This bill is being promoted to save jobs. In our case, it will be a job loser. Royal Silk has created jobs; we want to continue to do so. We tell you that the bill as written is not in our interest, and we would like to see an amendment made for silk. It would not save jobs in our industry; it would be the cost of American jobs. Thank you. I appreciate the time.

Senator HEINZ. Mr. Pike, thank you very much.

Mr. Weinberg.

[Mr. Pike's written testimony follows:]

TESTIMONY OF GERALD R. PIKE BEFORE THE INTERNATIONAL TRADE SUBCOMMITTEE, U.S. SENATE, ON S.680, SEPTEMBER 12, 1985

Mr. Chairman and members of the Committee:

I am Gerry Pike, and, together with my colleague Pak Melwani, I represent Royal Silk, Ltd., the nation's largest ready-to-wear silk clothier. We are a New Jersey corporation that has grown rapidly in the past half decade from six employees to about 200. We have twice been named to the Inc. 500, the prestigious listing of the nation's fastest growing companies, and we enjoy annual sales in excess of 30 million dollars. We design fashions of pure silk and chief-value silk and distribute directly to millions of consumers throughout the United States.

I am here to voice our serious concerns about S. 680, the Textile and Apparel Trade Enforcement Act of 1985. While we understand and sympathize with the problems that some of our colleagues in the textile industry are facing, we are convinced that many of the remedies proposed, particularly those relating to silk, are short-sighted, and would cause serious damage to the national interest at many levels.

First I would like to address the question of why silk should be included in this measure at all. The silk industry in the United States is virtually nonexistent. There is no sericulture industry here, no silk fabric is woven here, the dying of silk cloth is insubstantial as is silk garment manufacturing. The kind of highly specialized hand labor that silk manufacture requires does not exist in this country.

Restricting the importation of silk into the United States cannot be justified on the basis of a threat to domestic jobs. The threat does not exist because the jobs do not exist.

There are some who claim that silk should be restricted so that consumers will be forced to buy garments of other domestic fabrics--not domestic silk fabrics, but other, entirely different fabrics, particularly synthetic imitations. Frankly, this is akin to restricting the importation of diamonds to protect the domestic costume jewelry industry. To invert a familiar expression, it's like trying to turn a silk purse into a sow's ear. It is indefensible to deprive the American public of the opportunity to buy the genuine article so as to protect the producers of a lesser imitation. There is, in fact, no direct substitute for silk. There is no disputing the fact that silk is different in feel, wear and use from any other fabric.

The fact is, silk imports have decreased--and decreased substantially--from prewar levels. Prior to the establishment of the People's Republic, China exported three thousand tons of silk to the United States annually. Today it averages but three hundred tons a precipitous, 90 per cent drop.

As you go into markup on this legislation, we implore you to reconsider including silk in the proposal for imposing quotas on imported garments. Quotas would be deadly for our industry because our industry has, from its inception, been supplied from abroad. Unlike cotton, wool, or synthetics there is no domestic silk industry. Quotas on these other products can be supplied by American manufacturers. However, quotas on silk will prevent us from satisfying the demand for silk because there is no domestic company we can ask to fulfill our demand. Silk cannot be purchased domestically at any price. We would, therefore, be forced to stop our impressive growth, and, in fact, actually shrink it.

I realize there is some concern about blends. Any chief-value silk, blended garments brought into the United States have been imported according to classifications established by our own representatives through GATT negotiations. Chief-value silk is, briefly, anything that is more than 50 per cent silk by weight. At one time it was whatever the predominant fiber was. That, of course, was ridiculous and the classification was changed significantly. If proponents of this bill believe that the 50 per cent figure is still too low (although it is higher than for most fabrics) we suggest that they increase it to what they consider a fair level, instead of imposing hurtful quotas or high tariffs, which have so many negative consequences.

There are other remedies. Tariffs and quotos can be adjusted in some reasonable manner. Imports would be less detrimental to our business than quotas. At least we could continue to do business.

That leads me to my next point. This bill is being promoted as a job-saver. In our case, it will be a job-loser. We are a growing entrepreneurial company, the kind of company that statistics have shown to contribute most to employment growth in this country.

In fact, a study by the International Business and Economic Research Corporation has found that a net loss of 72,000 U. S. jobs will result if this bill passes. I am submitting a summary of this report for the record. No new jobs are coming out of the American textile industry, although it is the best-protected industry in this country. Royal Silk has created jobs and continues to do so.

Finally, it is important to consider the ramifications of restricting reasonable access to the U. S. market for a non-competitive natural fiber such as silk. Two of the countries most responsible for world silk production -- China and India--are very important to our foreign policy. These countries are upset by the threatened limitation of silk exports to the United States. They may be able to understand our desire to help industries here that compete directly with their exports. But how can we, with any sincerity, tell them they cannot even export their non-competitive products, such as silk, to earn the dollars necessary to buy American products? Do we seriously believe that these giant countries, virtually shut out of the American market, are not going to retaliate against American exports and seek closer trading ties with our adversaries? In the case of China, we would be violating bilateral treaties negotiated only five years ago, when we granted it Most Favored Nation status. This is not an encouragement for the infant entrepreneurial forces in that country.

During 1984, silk exports to the United States from China totaled only 59 million dollars. U. S. exports to China were more than 3 billion dollars for the same year. Under this bill, imports from China would be reduced by 57 per cent from last year. Yet China has a trade deficit with us of over 10 billion dollars in the decade. Our surplus with China represents domestic jobs, too. What about those jobs in agriculture, new technologies and industry?

To sum up, we believe this bill, as written, would not be in the national interest. It would cause great harm to our industry, deprive the American consumer of free access to a wonderful and unique product and substantially increases its price for those able to find it. It would not save jobs. In our industry it would be cause for the loss of American jobs. It would alienate two great countries of strategic importance to our nation whose friendship we have been working hard to gain. I ask you to exempt silk from this bill.

STATEMENT OF SIDNEY WEINBERG FOR JACK SHAMASH, DIRECTOR, INTERNATIONAL SILK ASSOCIATION OF THE UNITED STATES, NEW YORK, NY, ACCOMPANIED BY ROBERT E. RUGGERI, ATTORNEY, ROGERS & WELLS

Mr. **Weinberg**. Mr. Chairman, my name is Sidney Weinberg, and I am here today to testify on behalf of S. Shamash & Sons of New York. We are a silk importing and converting company and have been in this business for over 100 years. I am vice president of the company and am sitting in for Mr. Jack Shamash today, who is the director of the International Silk Association, and I am testifying on our behalf.

The specific purpose of our testimony is to urge that all products in chief value of natural silk be excluded from this bill, because they are not like or competitive with any textile products produced in the United States and do not pose a threat to any sector of the textile or manufacturing industries in this country.

In hearings of silk imports held by the U.S. Tariff Commission in 1959, which we testified at, it was determined that since there was basically no viable silk industry in the United States to protect, quotas on silk products were completely unjustified. Silk raw materials are not produced in the United States. Raw silk cannot be processed, nor is silk fabric dyed, printed, or finished in this country except in minute quantities. Moreover, the level of silk imports does not threaten the U.S. textile or apparel industry with any injury. The silk market for both apparel and home furnishings is a high fashion, high cost market. Silk is one of the most expensive fibers in the world. At $12 per pound, silk is 20 times more expensive than cotton or polyester, which sell at approximately 60 cents per pound. Silk is not washable, and the average cost of dry cleaning a silk garment is $4 per piece. Demand for silk products has always been supplied predominantly from abroad, without any discernible negative impact on the domestic textile industry.

Furthermore, there is not a garment manufacturer in the United States that is interested in or capable of manufacturing fine or ornamented silk blouses or dresses, because of the delicate nature of the fabric and the painstaking labor-intensive type of manufacture required. And I can elaborate on that point during any questioning.

This is a market for luxury goods that American manufacturers are not interested in supplying, even with the substantial protection which may be offered by the U.S. Government. To place quantitative restraints and universal import licensing, we would be penalizing China for an almost nonexistent U.S. domestic industry.

I am going to paraphrase—I see the yellow light on.

The inclusion of silk in S. 680 would be a blow to Chinese export sales of silk products to all markets, and would cause a substantial reduction of foreign exchange earnings that China needs to buy American grain, computers, and other U.S. goods which were worth over $3 billion to U.S. companies in 1984. Silk is one of the few products left that can be bartered with China for American technology and goods. Our company is currently doing this via a joint venture with the 3M Corp. of Minnesota. The unjustified restriction of fair U.S. market access to noncompetitive silk products presently included in 680 is a violation of the most-favored-nation status granted to China in 1980 by Congress, and might provoke retaliation by China against United States imports to this market.

Thank you very much.

Senator **Heinz**. Mr. Weinberg, thank you very much.

[The prepared testimony of Sidney Weinberg and Jack Shamash submitted for the record follows:]

STATEMENT BY SIDNEY WEINBERG, VICE PRESIDENT, S. SHAMASH & SONS, NEW YORK, NY, ACCOMPANIED BY ROBERT E. RUGGERI, ATTORNEY, ROGERS & WELLS

Mr. **Weinberg**. Mr. Chairman, my name is Sidney Weinberg, Vice President of S. Shamash & Sons of New York, and I am here today on behalf of Mr. Jack Shamash, Director of the International Silk Association, to strongly urge that all products in chief-value of natural silk be excluded from S. 680.

Natural silk products are not like or competitive with any textile products produced in the United States, nor do they pose a threat to any sector of the textile or manufacturing industries in this country. Demand for silk products has always been supplied predominantly from abroad, without any discernible negative impact on the domestic textile industry. We speak from experience: S. Shamash & Sons has been in the silk importing and converting business for over 100 years.

In 1959, we testified at silk import hearings conducted by the U.S. Tariff Commission. It was determined that since there was basically no viable silk industry in the United States to protect, quotas on silk products were completely unjustified. Raw silk materials are not produced in the United States. Raw silk cannot be processed, dyed, printed or finished in this country except in minute quantities.

The silk market for both apparel and home furnishings is a high fashion, high cost market. Silk is one of the most expensive fibers in the world. At $12 per pound, silk is 20 times more expensive than cotton or polyester, which sell at approximately $.60 per pound. The care of silk, too, is more costly. It is not washable, and the average dry cleaning bill for a silk garment is $4.

Because of the delicate nature of the fabric and the painstaking labor-intensive type of manufacture required, there is not a garment manufacturer in the United States that is interested in—or capable of—manufacturing fine or ornamented silk clothing. So you see, there is no threat of injury to the U.S. textile or apparel industry.

This is a market of luxury goods that American manufacturers are not interested in supplying, even with the substantial protection which may be offered by the U.S. Government. Instituting quantitative restraints and universal import licensing would be penalizing China for an almost nonexistent U.S. domestic industry. Furthermore, the inclusion of silk in S. 680 would be a blow to Chinese export sales of silk products to all markets, and would cause a substantial reduction of the foreign exchange earnings China needs to buy American grain, computers and other U.S.

goods which were worth over $3 billion in 1984. Silk is one of the few articles left that can be bartered with China for American technology and goods, which our company is currently doing through a joint venture with the 3M Corporation of Minnesota.

The unjustified restriction of fair U.S. market access to noncompetitive silk products currently included in S. 680 is a violation of the Most Favored Nation status granted to China in 1980 by Congress, and might well provoke retaliation by China against U.S. imports to this market.

TESTIMONY OF JACK SHAMASH OF S. SHAMASH & SONS, INC.

Mr. Chairman, my name is Jack Shamash and I am here today to testify on behalf of S. Shamash & Sons Inc. of New York, a silk importing and converting company with a history of over 100 years in the silk business. I am President of that company and a Director of the International Silk Association. I am grateful for the opportunity to testify today on S. 680, the Textile and Apparel Enforcement Act of 1985. While we object in general to the protectionist nature of the bill's provisions, the specific purpose of our testimony is to urge that all products in chief-value of natural silk be excluded from this bill because they are not like or competitive with any textile products produced in the United States, and do not pose a threat to any sector of the textile or manufacturing industries in this country.

In hearings on silk imports held by the U.S. Tariff Commission in 1959, it was determined that since there was basically no viable silk industry in the United States to protect, quotas on silk products were completely unjustified. Silk cannot be processed, nor is silk fabric dyed, printed, or finished in this country except in minute quantities. To our knowledge, American textile companies spinning and weaving silk products are limited to a few firms making silk-synthetic blended doupioni for neckties and a few blended upholstery fabrics with a limited natural silk content. We are aware of only two small plants in Pennsylvania that make any pure silk textiles whatsoever and these plants are exclusively devoted to the manufacture of neckties.

Moreover, the level of silk imports does not threaten the U.S. textile or apparel industry with any injury. In 1960 U.S. total imports of silk fabrics were valued only at approximately $100 million. According to the Department of Commerce, imports of silk fabrics from all sources in 1984 were $137.3 million, an average annual increase of only some 1.5% for 24 years. Commerce Department figures also indicate that U.S. imports of silk fabric even *declined* 17% from January through April 1985 over the same period last year.

The silk market, for both apparel and home furnishings, is a high-fashion, high-cost market. Silk is one of the most expensive fibers in the world. At $12.00 per pound, silk is twenty-times more expensive than cotton or polyester, which sell at approximately 60¢ per pound. Silk is not washable and the average cost of dry-cleaning a silk garment is $4.00 per piece. Demand for silk products has always been supplied predominantly from abroad without any discernable negative impact on the domestic textile industry. Furthermore, there is not a garment manufacturer in the United States that is interested in, or capable of, manufacturing fine or ornamented silk blouses or dresses because of the delicate nature of the fabric and the painstaking labor-intensive type of manufacture required. This is a market for luxury goods that American manufacturers are not interested in supplying, even with the substantial protection which may be offered by the U.S. government. To place quantitative restraints and universal import licensing requirements on imports of silk products, such as are proposed by S.680, will raise the prices of these products in the U.S. market even further. Thus the American consumer will be penalized in order to offer protection to an almost non-existent domestic industry.

Although the Asian nations of the Pacific Rim are most often accused of disrupting the U.S. textile market, Italy is actually the largest exporter of silk fabric to the United States. At an average cost of $9.00 per yard, most of this fabric is made into neckties in the United States which retail at an average cost of $20.00 per piece. The People's Republic of China is the second ranking supplier of silk to the U.S. market, but its domestic silk industry is the largest in the world. The Chinese are responsible for approximately 75% of total global production of silk products. In fact, most of the silk which enters the U.S. from Europe, Hong Kong, and Japan is made of raw materials sourced in China. The inclusion of silk in this bill is creating havoc in Chinese circles. Silk is produced in 27 of the 29 provinces in China and it employs over 10 million people. Silk is to China what wheat is to the United States. It is evident, therefore, that silk is a far more important export for China than might be gathered from the relatively small U.S. import figure of just over $59 million in 1984.

The inclusion of silk in S. 680 would be a blow to Chinese export sales of silk products to all markets and would cause a substantial reduction of the foreign exchange earnings that China needs to buy American grain, computers, and other U.S. goods which were worth over $3 billion to U.S. companies in 1984. Silk is one of the few products left that can be bartered with China for American technology and goods. U.S. manufacturers are particularly interested in getting pilot products into China through silk barter, but including silk imports in this bill will eliminate many projects for American companies who would receive compensation through silk barter.

The totally unjustified restriction of fair and reasonable U.S. market access to manifestly non-competitive silk products presently included in S. 680 is a violation of the Most Favored Nation status granted to China in 1980 by Congress and might possibly provoke retaliation by China against U.S. exports to their market.

For these reasons, we urge you to exclude specifically all products in chief-value of silk from any and all provisions of S. 680.

I would like to thank the Committee for the opportunity to describe the adverse and unfair impact this bill, if passed, would have on our trading partners, while not benefitting any substantial U.S. interest. I would be happy to respond to any questions you might have.

Thank you.

Study by: International Business and Economic Research Corporation, June 28, 1985
2121 K Street, N.W.
Washington, D.C. 20037
(202) 955-6155

ANALYSIS OF THE COST OF THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

1. The Textile and Apparel Trade Enforcement Act of 1985 would further restrict imports of textile and apparel products by rolling back current import levels from 12 major foreign suppliers and reducing future growth possibilities for all remaining suppliers. These new limitations would be over and above already existing tariffs and quotas that are estimated to cost the American consumer some $23 billion annually.

2. The additional restrictions being proposed would cut trade dramatically. Overall, apparel imports from countries targeted by the legislation (all but Canada and the EC) would be reduced by 20 percent. Similarly, total textile imports would fall by 36 percent. Several countries would be particularly hard hit. Imports from China, for example, would be reduced by 57 percent from 1984 levels; Indonesia by 85 percent; Brazil by 66 percent. Moreover, while the legislation does not roll back imports from the many smaller suppliers serving the U.S. market, it effectively eliminates any meaningful growth opportunities for them in the future.

3. The costs of these restrictions to the American consumer are significant. It will cost apparel consumers an extra $2.4 billion annually and textile consumers, $1.0 billion annually.

In the first five years, the total cost to the apparel consumer would be an estimated $11 billion in 1984 dollars, and to the textile consumer, $4 billion.

4. Apparel import prices would increase on average by 16 percent at wholesale. Textile import prices would increase an average of 33 percent. These gains reflect both quota-induced price increases and product upgrading as foreign producers concentrate on the export of higher unit-value goods. Lower-income consumers would pay the heaviest penalty as product upgrading reduced or eliminated the availability of less expensive merchandise.

5. Weighted average apparel prices (domestic and imported) will rise by a minimum of 3 percent; textile prices will increase by 3 percent. These estimates understate what may actually happen because they do not take into account the domestic price response to rising import price levels.

6. The additional import restraints on apparel would support only 36 thousand jobs in the domestic apparel manufacturing industry, at a cost of $66 thousand per job. Moreover, the quota-induced decline in overall domestic apparel consumption would mean the elimination of some 58 thousand jobs in the retail industry. In the apparel sector, therefore, more jobs would be lost in the retail sector than would be supported in the apparel sector.

7. The legislation would support 35 thousand jobs in the domestic textile manufacturing industry, at a cost of $27 thousand per job. The quota-induced decline in overall textile consumption eliminates almost 4 thousand jobs in the retail industry.

8. A state-by-state analysis of the distribution of employment benefits and costs shows that at least 36 states would experience net job losses if the legislation were enacted. Although, as one would expect, labor in three southern states (North Carolina, South Carolina and Georgia) would be the prime beneficiaries of additional quotas, labor in numerous midwestern and northeastern states, as well as California, would be prime losers from additional quotas.

9. The U.S. government would incur significant costs, a factor totally ignored by supporters of the legislation. The government will lose nearly $800 million dollars annually through reduced tariff revenues. The proposed licensing provisions would be extraordinarily expensive to implement and administer and would further raise costs to the consumer because of the disruption to import and retail operations. Increased costs would feed inflation, widen the budget deficit, and perhaps ultimately put upward pressure on interest rates.

10. Competitive U.S. exporters would face the risk of retaliation by textile and apparel exporters.

Senator **Heinz**. Mr. McLean.

STATEMENT OF C.C. McLEAN, SENIOR VICE PRESIDENT, W. KOURY CO., SANFORD, NC, ON BEHALF OF THE AMERICAN-CARIBBEAN TRADE ASSOCIATION, MIAMI, FL

Mr. **McLean**. Thank you.

My name is C.C. McLean. I am senior vice president of W. Koury Co., a slack manufacturer located in Sanford, NC, employing 400 people in that town. Bennett Marsh of Sandler & Travis Attorneys and Trade Consultants, is accompanying me.

Thank you for the time and the opportunity to testify on behalf of the American-Caribbean Trade Association. We represent U.S. apparel makers sucessfully competing with 100 percent foreign imports by using TSUS-807.

The number of U.S. apparel firms pursuing this strategy has increased dramatically in the last 2 years, and now includes both large and small firms, publicly and privately owned.

Our strategy is very simple and is effective in lowering prices to American consumers while also benefiting the American textile industry and other supporting industries, including the transportation and packaging industry as well as U.S. manufacturers of zippers, threads, buttons, linens, and other garment components.

We purchase the raw materials from U.S. manufacturers employing U.S. workers. Using U.S. workers, we handle, schedule, spread, cut, pack, and ship the fabricated parts by U.S. transport, through U.S. ports, to our neighboring countries in the Caribbean and Central America. There, they are sewn into garments and shipped back to the U.S. company for warehousing with domestically produced garments and distributed by U.S. workers.

The results of this strategy is that, in most cases, 70 to 80 percent of the value or the cost of the product when it arrives back at the U.S. port of entry is of U.S. origin. We pay duty on the value added outside the United States.

We are finding that we can then compete with other imports.

Unfortunately many of us have just recently begun to take advantage of TSUS-807, and many of our suppliers of U.S. raw materials have yet to comprehend the advantage of TSUS-807 and realize that it could substantially increase the consumption of their products.

Also, while we have found a way to compete, we are now limited and will continue to be limited in our ability to compete under legislation now before Congress. This is due to the fact that our products, of chiefly U.S. raw materials and labor, receive the same quota treatments as products of 100 percent foreign origin. This, we think you will agree, is not reasonable or equitable.

We ask that, in the best interests of all concerned, this committee recommend free reimportation of apparel products cut in the United States of 100-percent U.S.-manufactured raw materials.

Thank you for your consideration, and we would be happy to provide the committee with statistical facts to support this position.

Senator **Danforth**. Mr. McLean, thank you very much.

[Mr. McLean's written testimony follows:]

TESTIMONY BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
UNITED STATE SENATE
SEPTEMBER 12, 1985

Presented by Mr. C.C. McLean
Senior V.P. of W. Koury Company
on behalf of the American-Caribbean Trade Association

Mr. Chairman and Members of the Subcommittee:

The American-Caribbean Trade Association (ACTA) would like to thank you for the opportunity you are giving our membership to testify on the subject of U.S. trade in textiles and apparel. Our Association was formed to advance the common interests of more than 70 United States apparelmakers who have prospered by pursuing a joint production strategy with apparelmakers in more than fifteen Caribbean Basin countries.

The Association was formed when it became absolutely clear that the United States Government was pursuing a counterproductive U.S. trade policy with respect to imports of jointly-produced apparel. This policy resulted in the application of quantitative restrictions to apparel made exclusively from U.S. fabrics, yarns, buttons, zippers and other materials. These restrictions have made it easier for major apparel exporting countries to dominate the U.S. market and to speed the demise of the United States textile and apparel industries.

The member firms of ACTA, like other U.S. apparelmakers are under a constant threat from surging imports of apparel manufactured principally in Far East countries. At Koury, the affects of Far East imports became critical in 1980. Our market in the United States was eroding quickly. We had to begin laying off workers and it appeared that we would not be able to sustain sufficient production runs to justify continuation of our operations in Sanford, North Carolina.

Koury found itself in a situation in which it had to decide whether to cease operations completely or to find some way to produce a line of garments that could be priced competitively with Far East imports. Koury found that to lower costs sufficiently it would be necessary to move the final assembly of garments offshore. Offshore assembly meant implementing a joint production strategy with a foreign country where the costs associated with the assembly of apparel would be far below those in the United States.

Our move to joint production resulted in only 20 percent of our manufacturing value-added leaving the United States. When we started in Haiti, we lost some jobs in our plants in North Carolina, but most of our workers were able to stay with us. It was well understood by our staff that unless Koury could better compete with Far East imports, that the jobs of all our workers would be in jeopardy.

During the last 4 years our business has prospered and grown. We are a stronger and healthier U.S. manufacturer today than we were in 1980. We provide direct employment for more than 400 people in Sanford, as well as help promote employment in the many textile mills throughout the United States from whom we buy our fabric and other textile materials. In our view, Koury still is an all-American manufacturer of apparel.

Today, Koury and companies like it are in a position not only to compete effectively with imports from the Far East, but to displace those imports in the U.S. market. We have loyal U.S. customers who know that our products will be made from the finest and most durable fabrics available -- that is, U.S. fabric. They know they will be getting a garment that accurately reflects U.S. consumer preferences and is easy on the wallet.

The member firms of the American-Caribbean Trade Association are competing effectively with the Far East manufacturers and will be increasingly able to do so provided they can rely on a joint production strategy for part of their production runs.

Regrettably, U.S. textile policy and our Textile Agreements Program will not allow us to expand our assembly operations in Haiti and Mexico. We are under strict U.S. quotas. Even though more than 70 percent of the value of our garments is of

U.S.-origin, our goods returning from the Caribbean Basin are still considered a foreign product, and are treated on the same basis as products originating in Far East countries. The latter contain no U.S. value-added.

We are here today to request that this Committee recommend an immediate change in U.S. textile policy with respect to the reimportation of apparel which has been merely assembled abroad and which is made exclusively from U.S. fabrics, yarns and other ornamentation. These goods should not be subject to any U.S. quantitative restrictions so long as U.S. materials are used exclusively.

Further, these products should not be dutiable. Today, products originating from Israel enter this country duty-free. These Iraeli-origin apparel products aren't likely to contain a thread of U.S. content. We cannot understand how the Congress can continue a policy which discriminates against goods that are essentially U.S.-origin. Businesses and workers prosper because of this activity, and yet we are more willing to grant preferential access to foreign origin products than we are to goods made through joint production.

The members of our Association strongly believe that the actions we have proposed would be a logical and practical way to reduce the negative impact that Far East apparel imports are having on our textile and apparel industry. The best policy for the United States is to give its own apparelmakers the optimum environment in which to displace Far East imports. Moreover, our proposal would give friendly nations of the Caribbean Basin a chance to put many more workers into a modern production setting to learn U.S. management techniques and to become accustomed to the purchase and use of U.S. textile fabrics and materials.

The American-Caribbean Trade Association believes that U.S. trade statutes must be honored by our trading partners if those countries are to continue to have access to the U.S. market. Further, our member firms recognize that the joint production strategy is threatened whenever there is a trade dispute between the United States and the country in which assembly is taking place. Therefore, we would welcome the implementation of a strict system of customs monitoring and inspection to assure that the liberal U.S. policy we advocate can be implemented without problems of transshipment or other means of circumvention.

We urge the members of this Subcommittee and all members of Congress to seriously consider our proposals. Our industry has experienced an extremely threatening surge in imports from Far East countries over the past 5 years. The adjustments that our industry has made in order to retain its basic American character are irreversible. It would be foolish for the Congress to believe that further restriction of the joint production option is going to mean a healthier U.S. apparel industry. In fact, continuation of a policy which is limiting the possibilities of joint production while allowing Far East imports to continue to increase rapidly is weakening our industry on a daily basis.

The American-Caribbean Trade Association respectfully submits this testimony on behalf of U.S. apparelmakers whose continuing viability depends upon the outcome of your debate on the future of U.S. Textiles Agreements policy.

Senator **Danforth**. I want to thank everybody on this panel. I am sorry that I was not here to hear the testimony of three of you, but I was unavoidably in my own office during the past hour or so. Your testimony will be reviewed with great care, and it may be that we will have some questions to submit to you in writing at some point. I thank you very much for being here.

The next witnesses are Ms. Doreen Brown, president, Consumers for World Trade; Mr. Wayne Gable, director of trade policy, Citizens for a Sound Economy; Dr. Peter T. Nelson, president, International Trade Council; Mr. Eugene Milosh, president, American Association of Exporters & Importers; and Steven S. Weiser, Siegel, Mandell & Davidson, New York.

Thank you all for your patience in waiting so long to testify. It must seem as though it is an awfully long afternoon for you.

Let's proceed, if it is all right with you, as the names appear on the list.

Ms. Brown, would you like to proceed?

Ms. **Brown**. Yes.

STATEMENT OF DOREEN L. BROWN, PRESIDENT, CONSUMERS FOR WORLD TRADE, WASHINGTON, DC

Ms. **Brown**. Thank you, Senator.

For the record, CWT [Consumers for World Trade] is a national nonprofit organization established in 1978, concerned with the consumer interest in international trade policy, both imports and exports.

Many of the points which are included in our full statement and in the summary that is attached to it have already been made and will sound familiar to you, because they have been made by many of the past witnesses, both today and at earlier hearings, representing a variety of trade interests. Much to my gratification, I must say, they have all cited the effect on consumers of S. 680, and the fact that this negative effect is the most disturbing characteristic of the bill.

So, in the interest of time, I will not repeat all of the figures concerning costs to the consumers and costs per job, et cetera, that are included in our statement.

However, I would like to add a few words that are neither in my statement nor in the summary.

I am constantly asked—and it came to mind again when the panel of ladies testified a short while ago—"Doesn't CWT"—my organization—"have any compassion for the workers of America?" And my answer is emphatically, "Yes." We are very concerned about the unemployed workers and with those in export-import related sectors who will lose their jobs when one industry is protected from foreign competition at the expense of others. Because a worker employed or unemployed still consumes, although some advocates of trade restrictions would have us think otherwise. And it is the currently unemployed workers, it is these ladies who were here a short while ago, who are the most hurt by cost increases in the marketplace and by the unavailability of cheaper goods when imports are restricted.

I think American labor, unfortunately, has been caught in a trade situation, in a political situation I might say, which is not of their doing and which could very well be their undoing. They are being handed a quick-acting aspirin with no warning about its side effects, and they are being told that it will cure the ills which threaten their jobs, while the reality is that we are in a period of industrial adjustment, and that in order to compete in today's world an industry must modernize and cannot afford to be as labor-intensive as in the past.

Our workers are being killed by kindness, if you will, as well-intended as it might be. And if I were in today's labor force, I would be very angry at having been misled into believing that sectoral protection is going to mean job security.

I am also frequently asked whether I am not concerned about the industries that are in trouble, about the demise of some of our smokestack industries. And of course, the answer, again, is emphatically, Yes. And I am also concerned about our poor export performance. I am also concerned about our growing trade deficit. And this is why CWT keeps insisting that the real causes of these problems should be addressed—the fiscal causes, the monetary causes, and there is no need for me to list them in detail, the host of other macroeconomic problems which are radically affecting our competitive posture in the world market.

Turning to protectionist measures to solve these problems is merely delaying, and I might add ensuring, the prompt demise of American industry and increased unemployment.

I am also told by some, and in no uncertain terms, that my organization, by speaking up for expanded trade and against trade restrictions, is not dealing with the real world, that we are idealistic, that we are not pragmatic. I submit that we are dealing more with the real world than our accusers think we are, because we are looking at the real world not only at this very moment but at tomorrow's real world as well, and tomorrow is closer than we think.

This isn't free-trade rhetoric, Senator. It is a plea to the formulaters of trade policy to look at the real world, at the real problems, and to commit themselves to finding the real solutions, while avoiding the use of quick fixes that will only exacerbate those problems.

Thank you.

Senator Danforth. Thank you very much, Ms. Brown.

Mr. Gable.

[Ms. Brown's written testimony follows:]

CWT
CONSUMERS FOR
WORLD TRADE
1001 Connecticut Avenue, N.W.
Suite 800
Washington, D.C. 20036
202-785-4835

September 12, 1985

STATEMENT BEFORE THE SENATE FINANCE COMMITTEE'S SUBCOMMITTEE ON INTERNATIONAL TRADE

"The Textile and Apparel Trade Enforcement Act of 1985, (S. 680)"

Consumers for World Trade (CWT) is a national, non-profit membership organization established in 1978. CWT supports expanded foreign trade to help promote healthy economic growth; provide choices in the marketplace for consumers; and counteract inflationary price increases. CWT, believes in the importance of increasing productivity through the efficient utilization of human and capital resources. CWT conducts its educational programs, to keep American consumers informed of their stake in international trade policy and speaks out for the interests of consumers when trade policy is being formulated.

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Directors
DOREEN L. BROWN
President, Consumers for World Trade
C. FRED BERGSTEN
Director, Institute for International Economics
JOAN R. BRADEN
Senior Vice President, Gray & Co.
TIMOTHY L. ELDER
Washington Manager of Governmental Affairs, Caterpillar Tractor Company
JOHN R. FRAHM
Manager, Government Activities-International Operations, 3M Corporation
ISAIAH FRANK
Professor of International Economics, Johns Hopkins University School of Advanced International Studies
ROBERT N. HAMPTON
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J. M. COLTON HAND
Vice Chairman, Committee of 100 on the Federal City
HENDRIK S. HOUTHAKKER
Professor of Economics, Harvard University
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FRED J. MARTIN, JR.
Vice President, Washington Representative, Bank of America
ROBERT S. McNAMARA
Former President, The World Bank
GERALD O'BRIEN
Executive Vice President, American Importers Association (retired)
WILLIAM MATSON ROTH
President, Roth Properties
SEYMOUR J. RUBIN
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STATEMENT OF DOREEN L. BROWN
PRESIDENT, CONSUMERS FOR WORLD TRADE

BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE
SENATE FINANCE COMMITTEE
APRIL 3, 1985

THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985-S. 680

Mr. Chairman:

My name is Doreen Brown. I am the President of Consumers for World Trade (CWT), a non-profit organization which concerns itself with the interests of American consumers in international trade policy, both exports and imports. One of our primary goals is to bring to the attention of the American public and of the formulations of trade policy the high price consumers are paying for the protection of specific industries and products in the form of hidden taxes and the reduction of the availability of lower priced goods in the marketplace.

U.S. textile and apparel trade policy is a classic example of the unwarranted and unjustified economic burden being borne by consumers. Our concerns about textile and apparel trade policies started many years ago with the original Multifiber Arrangement (MFA). Our organization (CWT) did not exist in its present form in 1973, but we came about a few years later, in time to look back and see what damage had been done since the MFA was instituted.

Directors
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Executive Director
JANE E. DOCKERY

2.

In 1979, we commissioned a study from David Hartman, a Harvard professor of economics, in which he quoted the Council on Wage and Price Stability as reporting in 1978 that protection due to the MFA had cost consumers $2.7 billion a year, because of tariffs which then averaged 29.3 percent, and $369 million a year due to quotas. A much more recent study, published in 1983 by Michael Munger of the Center for the Study of American Business at Washington University in St. Louis estimates that the restrictions cost consumers about $18.4 billion a year (in 1980 dollars) $3.160 billion for textiles and $11.795 billion for apparel due to tariffs, and $3.416 billion for apparel and textiles due to quotas. These figures are frightening enough, but it is safe to say that these amounts, based on 1980 and 1982 data, have and will continue to increase with the rash of bilateral agreements which have taken place since then and with the recent adoption of more stringent controls on textiles and apparel trade. For example, in mid-January 1983, when the U.S. set quotas on many categories from China, retailers predicted that the price of imported clothing would go up 20% or more over a period of 12 months. This estimate was exceeded in less than 6 months. It is now reported that imported apparel went up 25 to 35 percent in 1984.

3.

As I mentioned earlier, restraints affect consumers not only in price but also in choice and availability. The President of the American Retail Federation, William Kay Daines, explained it this way for a CWT Newsletter interview:

> "The MFA has had a very interesting effect in a number of ways upon consumer goods. Years ago when the MFA first came into being, you did not have, from the Far East, competition in the highly tailored suits, blouses and other apparel that has now developed as a result of the MFA. Because of the quantitative restrictions the manufacturers abroad kept building to a higher product, trading up, and now you have sharp competition to American apparel in the exact categories where they were highly competitive many years ago. That type of competition does eliminate lower-end goods; however, if the MFA were liberalized or ended, those lower end goods would return very rapidly."

Kay Daines hit on a very important point in this statement: the fact that the cheaper goods, the ones that attract many American consumers to buy the import in the first place, become scarce and are eventually eliminated. So that it is, unavoidably, the lower income, the fixed income individual the one who is shopping price, the one who can least afford it who bears the heaviest burden. Import restrictions are thus the equivalent of regressive taxes - a system which America has long condemned.

I have been discussing the price and availability effects of trade restrictive policies, but there is one other factor to be considered. What of retaliation? China did, of course, in 1983 against U.S. exports of soybeans, cotton, and chemical fibers, and has indicated that it will do so again. We don't believe any trade expert would be surprised by this action - he or she would be more surprised perhaps if other major supplying countries did not retaliate also. Hong Kong, of course, being a free market, has a problem, and the Third World countries, which we claim to help on one hand and hit with export quotas on the other, are not in a position to do so. But how long will this keep up? How long before the agricultural community, pitted against the textile sector, pressures trade policy formulators into counter-retaliatory actions? And how long before the consumer feels the devastating effects of an escalated trade war?

The Textile and Apparel Trade Enforcement Act of 1985, (S.680), because it is a trade limiting action, can be expected to bring about all of the negative consequences attributed to past protection for the domestic industry. The Act substantially tightens MFA provisions, discriminates among the exporting countries, extends quotas to textile products not even covered under the present MFA not produced in significant quantities in the U.S. such as linen, silk and ramie and imposes an import licensing scheme.

By differentiating in the growth allowance to exporting countries 1 percent for a major exporting country (even though that country may only have one-quarter of one percent of the U.S. market) and 6 percent for the smaller exporters-the legislation would cause an immediate reduction of imports.

Since the major suppliers represent 85 to 90 percent of textile trade, it has been estimated that total textile trade in the United States will be reduced from 20 to 30 percent. Such action is bound to result in more highly inflated prices than before and even less availability of cheaper goods.

Certain retaliation - justified retaliation since the bill which exempts Canada, Mexico and the EC is in violation of the GATT and the Most-Favored-Nation principle- will undoubtedly direct itself to our agricultural sector. If this legalization were enacted the U.S. would be taking a further step away from an open multilateral system - the goal which we are all allegedly seeking.

This bill is totally unacceptable to American consumers who have been subsidizing protected American industries to the tune of $58.5 billion a year for far too long.

The MFA was instituted as a temporary arrangement 14 years ago and as agreed to in the 1981 extension, should be phased out as rapidly as possible.

CWT will continue to stress the need for a radical change in U.S. textiles and apparel trade policy for as long as necessary and will continue to call for the liberalizing of bilateral agreements and the elimination of the MFA.

The open-ended program of protection for the domestic manufacturers, a program which, by its very nature, has failed to provide the challenge necessary for the industry to adjust to and confront foreign competition and market-oriented world trade. American consumers must not be forced to subsidize an ineffective policy which has proved to be detrimental to the industry, its workers and the public interest.

SUMMARY

1. Consumers for World Trade (CWT) is a non-profit organization concerned with the interests of American consumers in international trade policy, both exports and imports. One of our primary goals is to bring to the attention of the American public and of the formulators of trade policy the high price consumers are paying for the protection of certain industries and products in the form of hidden taxes and the reduction, if not elimination, of lower priced goods in the marketplace.

2. Our concerns about U.S. textile and apparel trade policy date back to the original Multifiber Arrangement of 1973, and are backed up by a 1983 study by Business at Washington University in St. Louis which estimates that the MFA has cost consumers $18.4 billion yearly (1980 dollars): $14.955 billion due to tariffs and $3.416 billion due to quotas. It is safe to say that these figures have and will continue to increase with the rash of bilateral agreements and the adoption of more stringent trade controls which have taken place since then.

3. Trade restraints affect consumers not only in price but also in choice and availability. Cheaper goods become scarce and are eventually eliminated. Lower and fixed income individuals, therefore, bear the heaviest burden.

4. Retaliation by our trading partners is an additional concern. China did in 1983 and has announced it will do so again. This could eventually lead to counter-retaliatory action and consumers will feel the devastating effect, of an escalated trade war.

5. The Textile and Apparel Trade Enforcement Act of 1985, S. 680, can be expected to bring above all of the negative consequences of trade limiting actions. By tightening MFA provisions, extending quotas to textile products not covered under the MFA nor produced in significant quantities in the U.S., imposing an import licensing scheme, and limiting the major suppliers who represent 85 to 90 percent of textile trade to 1 percent annual growth, the legislation will cause an immediate reduction of imports. This will, in turn, result in inflated costs and even fewer cheaper goods. It is totally unacceptable to American consumers who are already paying 58.5, billion dollars yearly to protect American industries.

6. CWT will continue to call for the liberalization of textile trade, the elimination of the MFA and the defeat of proposals such as S. 680. The open-ended program of protection for domestic textile and apparel manufacturers has failed to provide the challenge necessary, for the industry to adjust to and confront foreign competition and market-oriented world trade. Consumers should not be forced to subsidize an ineffective policy which has proved to be detrimental to the industry, its workers and the public interest.

STATEMENT OF WAYNE GABLE, DIRECTOR OF TRADE POLICY, CITIZENS FOR A SOUND ECONOMY, WASHINGTON, DC

Mr. GABLE. Thank you, Mr. Chairman.

My name is Wayne Gable, and I am director of trade policy at Citizens for a Sound Economy. On behalf of our 200,000 members, I want to call the subcommittee's attention to the heavy burden that Senate bill 680 would place on consumers, importers, and retailers.

I know that there have been a lot of statistics thrown out over today's hearing, and I am going to repeat a few of them because I think they are important, and because further restrictions on textile imports would reduce the range of choice available to consumers and would probably trigger retaliation on the part of many textile importing countries.

As a broad-based citizen's group, Citizens for a Sound Economy is especially concerned with the heavy burden that Senate bill 680 would place on consumers. In an August 1984 study, the Federal Trade Commission estimated that import quotas from only one major textile-producing area, Hong Kong, cost the American consumer over $218 million per year in higher clothing costs. This $218 million is only a small part of the overall costs of textile quotas, because Hong Kong only provided about 20 percent of the textile imports during the estimation period. This $218 million is an estimate of what the current quota system cost consumers; the Textile and Apparel Act of 1984 proposes to increase consumer costs to even higher levels.

I am sure that you are aware that the Reagan administration has estimated that it would cost consumers up to $14 billion a year.

The impact that Senate bill 680 would have on textile prices is clear: It would raise them. You can't cut back imports on textiles by up to 30 percent and not expect to significantly raise prices. But even if imports were frozen at current levels, prices for foreign textiles would still increase. With restrictions on the quantity of foreign imports, foreign countries would naturally replace quantity increases with quality increases; that is, they would import the same quantity with higher quality and that would increase the price of the goods. This substitution of quality and expensive extras for quantity has a precedent in the case of the voluntary automobile restraints, and it would happen again in textiles.

Because of the impact on textile prices, this bill amounts to a tax on consumers in order to shield the domestic textile industry from competition from countries which often provide a better deal for the money. Not only is it a tax, it is a regressive tax. By increasing the cost of necessities like clothing, the bill would place a heavier burden on low-income groups, which must spend a larger proportion of their income on these necessities.

We are told by supporters of the bill that higher quotas are necessary to preserve jobs in the textile industry. While these quotas may temporarily save jobs in one industry, they will destroy many other jobs in other industries, such as the importing and retailing industries, which are dependent on textile imports.

As you probably know, the International Business and Economic Research Corp. has estimated that the proposed quotas would result in the loss of 62,000 jobs in retailing industries. These import-dependent jobs are just as important as the textile jobs; yet, import quotas will certainly destroy many of them.

And there is another class of jobs which are endangered by increasing textile quotas, those which are dependent on exports. Retaliation is a very real possibility, especially since foreign countries may be interested in taking strong action in order to discourage further protectionist legislation. If retaliation occurs, it will mean even more jobs destroyed, and stagnation in industries which are healthy today.

Those who are confident that retaliation is not a credible threat should remember that it was also not considered a credible threat by many when the Smoot-Hawley Tariff was passed in 1930; but then retaliation did occur, and many historians believe that stifled international trade was a major contributor to the Great Depression which followed.

I would like to conclude by noting that open trade is one of the few policies which almost all economists support, and there are good reasons for this consensus: Open trade between nations, like open trade between individuals, leads to the greatest satisfaction for the greatest number of consumers.

On behalf of the 200,000 members of Citizens for a Sound Economy, I therefore urge you to consider reversing directions on the question before us today. For greater economic growth, the subcommittee ought to seriously consider removing the burdensome web of import restrictions that already cost the American consumers dearly and keep the domestic textile industry from adjusting to changes in the world market. In other words, the subject of this inquiry should be reducing protectionism and not expanding it.

Thank you.

Senator DANFORTH. Thank you, Mr. Gable.

[Mr. Gable's written testimony follows:]

C/S/E

Testimony on Textiles and Apparel
by Wayne E. Gable, Citizens for a Sound Economy
Presented to the Subcommittee on International Trade
Senate Finance Committee
September 12, 1985

Chairman Danforth, Members of the subcommittee:

On behalf of the 200,000 members of Citizens for a Sound Economy, I ask the Subcommittee on Trade to reject further restrictions on textile imports. The subcommittee ought to seriously consider removing the burdensome web of import restrictions that already costs American consumers dearly and keeps the domestic textile industry from making the appropriate adjustments to the world textile market. In other words, the subject of inquiry should be free trade, not protectionism.

S. 680 is ill-conceived and inconsistent with economic progress and consumer soverignty. The American economy became the envy of the world because it left freedom of choice in the hands of consumers. This prompted entrepreneurs to seek ways to satisfy consumers, and in the process they and American workers built the most advanced economy in history. But cause and effect cannot be reversed. It is only by leaving consumers free to buy from whomever they wish that we can have a thriving growing economy that benefits everyone.

As Adam Smith noted long ago, the purpose of the economic system is consumption. A job is mere physical exertion unless it ultimately satisfies consumers. Consumers should have every right to buy at the best price possible, regardless of where the products are made. This not only lets consumers get the most for their money, it enables the economy as a whole to get the most of the resources available.

Protectionism inevitably raises prices and misallocates resources. This may be done in the name of saving jobs, but in the end protectionism destroys jobs and hurts everyone. A robust economy is in everyone's long-term best interest. A stagnant economy will haunt the very people protectionist measures are intended to help.

Nowhere is this more apparent than in the textile and apparel industries. If the people advocating protection were correct, one should have expected those industries to have stopped seeking shelter from world competition long ago. In modern times the textile and apparel interests started asking for

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"temporary" relief in the 1930s. In 1935 Japan succeeded in selling a significant amount of textiles here despite an average 46-percent tariff on cotton goods and 60-percent tariff on wool and woolen goods. The result was a "voluntary" quota agreement forced on the Japanese by the Roosevelt administration. When Japan's textile industry rebuilt itself after World War II, so-called voluntary restrictions were again forced on that country. By this time the General Agreement on Tariffs and Trade had started to limit tariffs, so nontariff barriers were the alternative.

In the 1950s and 1960s, when Hong Kong increased its textile and apparel exports to the United States and refused to bow to American pressure and restraint, the U.S. government worked to get textiles exempted from the GATT tariff ceilings. This strategy ultimately triumphed. Then in 1974 the first Multi-Fiber Arrangement (MFA) was instituted to regulate world trade in textiles. Since then the MFA has become more restrictive.

Temporary relief has a way of becoming permanent and more stringent as time goes on. This has been our experience in the American textile and apparel industries. The excuse may change -- low wages in foreign countries, subsidies to foreign industries -- but the objective never varies: shelter from the consumers' freedom of choice. We can conclude that these industries do not wish to face the market without help from the U.S. government.

S. 680 is more readily understood when seen in this context. This bill would roll back to 1983 levels imports from the 20 largest textile-producing countries. It would extend the quotas to a wider range of products. It would set up a special import-licensing system. It would limit the growth of imports to 1 percent for products that directly compete with American products and 6 percent with products that do not. What is that but a blatant attack on consumer sovereignty?

This legislation comes at an especially important time. General protectionist sentiment is running high. As you know, there is considerable support for the "import surcharge" bill, which could be a replay of the Smoot-Hawley Tariff of 1930. Further, the last few years have been accelerated protectionism for American textile and apparel interests. In 1984 the country--of-origin rules were changed to further restrict consumer choice. In the last two years quotas have been imposed on 220 kinds of goods from 23 nations. S. 680 is another sign of the misguided protectionism that is headed on a collision course with the U.S. economy's recovery.

This bill will have the same adverse effects that all protectionism has. It will constrict consumer choice and force Americans to pay more for clothing. It will hurt American exporters -- such as farmers -- by reducing the purchasing power of foreign buyers. It will, of course, hurt the millions of American workers--retail employees, for example--who make their living selling imported clothing and textiles in the United States. Why should this multitude be sacrificed to a relative few whose industry cannot complete effectively?

S. 680 would be nothing less than special privilege conferred on a small group at the expense of most of the American people and producers in Third World countries. Supporters of the bill extol orderly markets and decry "disruption" from foreign producers. Let's examine these things. There is nothing disorderly about a rapid increase in imports, which, by the way, can be no more rapid than our consumers wish. It is presumptuous and arbitrary for anyone to dictate that imports should grow at some fixed rate. That is a matter for individual consumers to decide, and it is unfair to citizens that others have arrogated to themselves the right to make that determination.

Moreover, "disruption" is the flip-side of economic advancement. When Edison invented the light bulb, he disrupted the candle industry. When Ford mass produced the auto, he disrupted the horse and buggy industry. To protect an economy from this kind of disruption is to consign it to stagnation, which means unemployment, lost opportunity, and a lower standard of living for consumers.

If we want to assure that today's American textile workers have better long-term future job opportunities, we must have free trade, for only then will the economy flourish and produce maximum opportunities for advancement. Protectionism promises only the opposite: stagnation and unemployment. It cannot be in the interest of textile workers to be locked into industry stagnation. If adjustment to economic reality has to be made, it is better to know sooner rather than later. I do not wish to underrate the hardship on people whose jobs are jeopardized by the competitive market process. But that is not a problem peculiar to the foreign trade issue. Someone working in a textile mill in South Carolina can lose his job because of a superior production process elsewhere in the United States, or because consumer preferences change.

The best protection for people who are forced to adjust to new conditions is a thriving economy that vigorously produces new opportunity. But we cannot have that without economic freedom, which includes open trade.

Throughout history, the greatest bursts of economic progress have followed periods of trade liberalization. These were not coincidences. We can have the same degree of progress again if only we learn the lessons of history and economic theory.

I therefore urge you, on behalf of the 200,000 members of Citizens for a Sound Economy, to reject any additional restrictions on textile imports. Thank you for this opportunity to address the subcommittee.

Senator DANFORTH. Dr. Nelsen.

STATEMENT OF DR. PETER T. NELSEN, PRESIDENT, INTERNATIONAL TRADE COUNCIL, WASHINGTON, DC

Dr. NELSEN. Thank you, Mr. Chairman.

Mr. Chairman, I am Peter Nelsen. I am chairman of the International Trade Council, and I am chairman of the International Development Institute. My trade association has producing companies with divisions in about 49 States, representing more than 200,000 people employed.

We are against S. 680 because of the sectoral protectionism that it applies. There are about 10,000 industries listed in the Standard Industrialization Classification Directory, which was printed in 1972, and now there are actually more than that. If each industry asks for protection, then eventually nobody ends up with protection because all international trade would cease.

We have to recognize that our problems are oftentimes passed on to other countries. If their productivity is reduced because of investment in this country, because of our high dollar, we will induce them to retaliate with protectionism.

Even if they don't retaliate, any action in this area has an inflationary effect. If inflation zooms, then even if our dollar goes down, our exports will be less marketable overseas.

What this country really needs is more export expansion, programs that allow our producers to be competitive with overseas producers in a free market.

Each billion dollars' worth of export produces about 25,000 or more jobs. We live in a dynamic society in which companies have to look ahead and retool, employees have to look ahead and retrain if necessary. Maybe they have to retrain several times in their lifetime, but that is part of living in a competitive society.

If you look at the list of the countries where the MFA was imposed, all but three of them are geopolitically very important to the United States. We are spending $4.5 or $5 billion a year on foreign aid to these countries—most of them are on this list. A majority of the foreign aid in the past has been spent helping these countries become productive. Now we are turning around and saying, "Buy our exports, but we don't want your imports."

What we need to do is the same thing that they did: We have to see where we have economic advantage, where we can produce from a point of comparative advantage, and produce those things where we have this advantage. Without that, we are going to be left behind.

We have lost, percentagewise. I think 15 or 20 years ago we exported 24 percent of the world's exports; now we are down to 17 percent. In volume, we may still be level; but we are losing market share.

Regressive legislation never has positive results, therefore we need to look at the underlying effect of the proposed legislation.

Let me just finish by saying that we have a lot of compassion for displaced workers. We must have compassion for the people that were here talking about how bad things are. They need retraining into new jobs. But in the last quarter, I think we produced 300,000 new jobs; our unemployment rate is going down. So, look at the overall picture and don't look at a single sector of industry, and institute a program that benefits the entire economy.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, sir.

Mr. Milosh.

[Dr. Nelson's written testimony follows:]

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Statement of
Dr. Peter Nelsen, President
International Trade Council
before
The Committee on Finance of the United States Senate
Senate Bill 680
September 12, 1985

Mr. Chairman and Members of the Committee, we thank you for this opportunity to sumbit testimony on Senate Bill 680 before the Committee on Finance of the United States Senate.

I am Dr. Peter Nelsen, an economist, President of the International Trade Countil (ITC), and Chairman of the International Development Institute. The ITC is a trade association dedicated to the expansion of free international trade between all countries of the world. Our members produce goods and services in 49 states. The International Development Institute is a research and educational organization dedicated to the development of international trade and the transfer of appropriate technology to meet basic human needs.

The multi-fiber arrangement was last renegotiated in 1981 and extends through July 31, 1986, and is intended to provide for orderly growth in trade on a nondisruptive basis. Under this arrangement, the major textile and apparel producing nations of the world have agreed to a regimen of import control on textile and apparel products. These controls are freely negotiated and conform with obligations incurred under the General Agreement on Trade and Tariffs, on a bilateral basis between MFA signatory countries. The International Trade Countil regrets that the U.S. experience has been that the MFA negotiated agreements have been ineffective in stabilizing the growth of imports. While it is the intention of S. 680 to ensure a stable, nondiscriptive flow of imports, it would nontheless be better for the MFA signatories and the world trading system as it now exists, to pursue enforcement at the international level through the existing MFA agreements. This would increase world confidence in the integrity of such agreements, help stabilize world trade with the U.S. and work toward the perfection of the international trading system. What S. 680 does is to attempt to remendy a multinational trade issue on an isolated, domestic level for a specific sector of the U.S. industrial spectrum. The International Trade Council takes the position that no positive result can derive from negative measures of law or regulatory action. Therefore Congressional and Presidential action should be limited to measures that mitigate foreign protectionism in the form of direct and indirect trade barriers against U.S. producers.

The multilateral trading system is premised upon free trade through voluntary negotiation among partners. The intent of S. 680 is to enforce existing bilateral agreements. The effect of S. 680 tips the scale toward protectionism. If this perception is accurate, this legislation could invite a wave of new pressures on Congress to produce similar measures for other domestic industries. All types of quotas, restrictions and non-tariff barriers jeopardize the multilateral trading system and reduce the importance of GATT. Today's world is one in which the preferences and needs for products are becoming increasingly similar and consumers will always desire the best product for the best price from anywhere in the world. The U.S. must view trade imbalances in a global context and U.S. industry must continue to pursue world markets and not simply its own. While S. 680 intends to correct a current imbalance, it is only a question of time before the textile/apparel industry, even as modernized, will have to face the need to enter and penetrate world markets. U.S. producers must invest in the creation of more productive enterprise in present product lines and if he can't compete there then he has to change to a product line where he can achieve a competetive advantage in the world market place.

The present trade imbalance in the textile/apparel industry must be seen in light of the present economic environment, that is, a strong dollar and an expanding U.S. economy which attracts imports to the U.S. Even with import quotas enforced as S. 680 proposes, however, the world trade climate would still face the same conditions. The U.S. is faced with the need to devise an overall trade policy, as Sen. Mattingly pointed out in his remarks accompanying the introduction of this legislation. Sen. Hollings in his remarks, proposes the establishment of a National Trade Council to better focus on these issues. This is the type of conceptualization which is needed to take a balanced, overall approach to resolve trade issues which will often be common to many industries.

Nations, companies and individuals who refuse to learn from history are often doomed to relive it. We therefore reiterate that no positive economic result can derive from negative legislation.

We believe that if the U.S. producer is not limited by regressive legislation, tax or uncompetetive export government programs, then he will be able to compete in the world market, if he is willing to participate in the world market. Most U.S. producers have never tried to export as evidenced by the fact that the U.S. has never exported more than 9 - 10% of GNP while European and some newly industrialized countries export more than 50% of their GNP.

S. 680 strikes a balance for import levels from "major exporting countries" and "smaller exporting countries." Exports from major exporters would be limited to levels that would have prevailed if exports had grown at six percent per year since 1980 as designed by the MFA in 1981, and levels for smaller exporters would be set at 115 percent of the 1984 level. Growth would be set at one percent for import sensitive products and those produced by major exporters and growth for smaller exporters would be limited to six percent a year.

The International Trade Council supports the emphasis upon growth for the economies of the developing countries at a time when many of them are experiencing high inflation, debt payment problems and a sluggish economy. The licensing scheme in the bill, however, would impose a significant burden upon these countries. Many smaller countries do not have the administrative mechanism to comply with such a detailed scheme and can ill afford added burdens to trade. Such potential trade barriers should be reconsidered. Moreover, should this licensing scheme be implemented, it would in any event be better for those revenues to be earmarked to fund export financing and export marketing rather than simply revert to the general treasury. There is a precedent for such designation of these funds in the Agricultural Stabilization Act of 1936. Section 32 of this Act allows for a set aside of up to 30 percent of the import duties on foreign agricultural commodities to be used for export financing and export marketing.

I shall close my remarks by noting that in 1921 President Harding claimed that Europe after WW I would become "unfair" competition to

U.S. workers. In 1929 the Hawley Smoot Tariff bill became law and more than 50 nations retaliated with higher tariffs. The economic downturn that quickly followed was a major factor leading to the "great depression" of 1929.

When the consumer has the right of choice of purchase in a free market, no U.S. consumer will purchase a foreign product unless the price and/or quality and/or deisgn is better in his opinion than a comparable domestic product. Thus U.S. producers are only at a disadvantage if they are non-competetive. Negative legislation such as S. 680 cannot produce positive results. It can only in the end, hurt the U.S. consumer's pocketbock and defeat U.S. economic objectives of low inflation.

In the last economic quarter, the U.S. economy created 300,000 new jobs. The unemployment level dropped from 7.3 percent to 7 percent. The United States economy is growing while those of most other nations are weak or stagnant. These are real and significant facts I hope you will also consider. I therefore recommend that you consider S. 680 as a Senate resolution only.

Thank you, Mr. Chairman and members of the Committee for the opportunity to submit this testimony.

Summary of
the Statement of Dr. Peter Nelsen
International Trade Council

The International Trade Council recommends that Senate Bill 680 before the Senate Committee on Finance be considered and passed as a Senate resolution only. We make this recommendation with the following observations:

- S. 680 is a remedial measure designed to enforce the Multi-Fiber Arrangement. This domestic legislative solution to an international trade question diminishes the need for greater integrity by means of existing international agreements and procedures.
- The multilateral trading system is premised upon free trade through negotiation among partners. This legislation in its effect tips the scale toward protectionism. Such measures invite retaliation and damage relations with partners. All U.S. industry must follow an expansive rather than restrictive approach and seek increased cooperation. No positive result can derive from negative measures.
- The present trade imbalance in the textile/apparel industry must be seen in light of the present economic environment, that is, a strong dollar in an expanding U.S. economy which attracts export to the U.S. Because U.S. trade policy is still in the developing stages, it is difficult for U.S. industry and governance to take a long term view.
- S. 680 strikes a balance for import levels from major exporters and smaller exporters. This stabilizes levels of imports and at the same time allows for growth of the developing countries' export levels. The licensing scheme proposed in the bill however, would burden developing countries. Additionally, licensing revenues should be applied to U.S. international export financing and export marketing rather than to the general treasury.

STATEMENT OF EUGENE J. MILOSH, PRESIDENT, AMERICAN ASSOCIATION OF EXPORTERS & IMPORTERS, NEW YORK, NY, ACCOMPANIED BY MICHAEL DANIELS, ESQUIRE, VICE CHAIRMAN, PUBLIC AFFAIRS COMMITTEE, AMERICAN ASSOCIATION OF EXPORTERS & IMPORTERS, AND MANAGING PARTNER, MUDGE ROSE GUTHRIE ALEXANDER & FERDON, WASHINGTON, DC

Mr. MILOSH. Mr. Chairman, I am Gene Milosh, president of the American Association of Exporters & Importers, headquartered in New York City.

AAEI, an organization of over 1,000 member firms, was founded in 1921, and is dedicated to the promotion of fair and open trade. Our member companies produce and trade a broad range of products. As such, our comments will address the broad international issues.

I am accompanied by special counsel to AAEI, Martin Lewin, of the member law firm Mudge Rose Guthrie Alexander & Ferdon.

We are here today in complete opposition to the passage of S. 680. AAEI shares the concerns of Congress with our trade problems: Our country simply cannot long sustain the enormous deficit in our trade account. We believe, however, that the fundamental problem facing U.S. trade is not bad trade policy; the fundamental problem is the overvalued dollar which is a direct result of poor fiscal and monetary policies. Our soaring budget deficit is the prime reason behind the high U.S. interest rates and the stubborn overvaluation of the dollar. We must act immediately to reduce our budget deficit.

In addition, we need to adopt a more expansive monetary policy to reduce interest rates. The high dollar has made it impossible to increase our exports, at the same time that it has led to major import gains across a broad spectrum of products and industries.

The protectionist trade proposals before the Congress do not address the budget deficit and high interest rates that sustain the present exchange rate misalignment. Indeed, reducing our imports through protectionism may actually exacerbate our problems. Other countries will certainly retaliate, particularly due to the permanent nature of the quotas, and our exports will decline as a result. Inefficiencies in our economy will be increased, not decreased.

S. 680 does not even begin to provide a solution to the problems we face. In fact, S. 680 merely assures that our problems will worsen. It will choke off imports from developing countries. Many of these countries need to export their competitive products to service their debt, much of which is owed to U.S. major banks and regional banks.

Developing-country debt problem is also another prime contributor to the slump in our exports. Debt-service needs have caused developing countries to sharply reduce imports and to erect new import barriers.

The Congress needs to consider methods to provide new finance to developing countries. S. 680, meanwhile, is a giant step backward; it will deny developing countries to foreign exchange to purchase U.S. products and will lead them to retaliate against the

United States and to turn elsewhere for the products they remain able to purchase.

The campaign on behalf of S. 680 by the domestic industry is being waged despite the fact that it would be an outrageous and unjustifiable repudiation of our international commitments under 34 bilateral agreements, the MFA, and the GATT.

We need the cooperation of the developing countries, targeted by the bill, to succeed in multilateral negotiations within the GATT and in bilateral negotiations. We have a long trade agenda—services, high technology products, intellectual rights, agriculture and performance requirements, some of our major strengths. If S. 680 is enacted, developing-country suppliers who have negotiated unsavory export restrictions in the past will feel betrayed, and they will ignore and even oppose our interests in the future.

Thank you.

Senator **Danforth**. Thank you, Mr. Milosh.

[Mr. Milosh's written testimony follows:]

Statement of

Mr. Eugene J. Milosh

President

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on

S. 680
The Textile and Apparel
Trade Enforcement Act of 1985

Before the

U.S. Senate Committee on Finance
Subcommittee on International Trade

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Of Counsel
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Executive Summary
# of the
Statement of

Mr. Eugene J. Milosh

Introduction

S. 680, the Textile and Apparel Trade Enforcement Act of 1985, represents an attempt by the domestic textile and apparel industry to use our present trade crisis as a smoke screen to advance its efforts to obtain further unwarranted protection from developing country imports. The bill will do nothing to solve our economic problems, and it will create grave damage to an already strained international trade system.

1. Textiles and Trade Policy

S. 680 would violate our international commitments under (i) bilateral agreements with over 30 countries, (ii) the Multifiber Arrangement (MFA), and (iii) the General Agreement on Tariffs and Trade (GATT). The MFA was negotiated by the United States under pressure from the U.S. textile and apparel industry. The MFA represents a wholesale departure from Article XIX of the GATT concerning safeguards, because it permits the selective imposition of restrictions without the payment of compensation. The existing framework on textile trade is discriminatory against developing countries, and severely strains the GATT system. Under the MFA, the United States is committed to a gradual elimination of restrictions on international trade in textiles and apparel. S. 680, however, would represent a complete repudiation of U.S. obligations, and would be met with deep resentment from developing countries. At a time when the forces of liberalization are diminished, and when the United States is seeking developing country cooperation to further its trade agenda on services, high technology products, agriculture, intellectual property and performance requirements, S. 680 would be a monumental step backwards.

2. The Fundamental Trade Problems Facing the United States are Unrelated to S. 680

The huge merchandise and current account deficits facing the United States will not be even slightly reduced by enactment of S. 680. U.S. imports have soared due to an overvalued dollar and a strong economic recovery. The overvalued dollar is largely a function of high budget deficits and a restrictive monetary policy. Thus, solutions should concentrate on fiscal and monetary policies, not narrow and discriminatory protectionism.

A reduction in our imports of textiles from developing countries under S. 680 will merely result in retaliation against our exports and a reduction in the foreign exchange required to purchase U.S. products. Likewise, the bill will exacerbate the developing country debt service problem.

3. The Textile and Apparel Industry is Already the Most Protected Sector of our Economy

Through the negotiation of the MFA, and a variety of U.S. regulations and enforcement procedures, the domestic textile and apparel industry is by far the most heavily protected sector of our economy. Largely as a consequence of this protection, imports from the major developing country suppliers have declined in the first seven months of 1985. The additional protection sought by the industry under S. 680 will merely impose further huge costs on the U.S. consumer.

4. Conclusion

The solution to our trade problem lies in (i) reducing the overvalued dollar, which is a function of high interest rates and the federal budget deficit, (ii) eliminating foreign country trade barriers, and (iii) solving the developing country debt crisis.

S. 680 is only a selfish attempt by the domestic textile industry to exploit the present mood of the Congress in order to satisfy its already bloated appetite for ever more protection.

Mister Chairman.

My name is Eugene J. Milosh.

I am President of the American Association of Exporters and Importers, headquartered in New York City. AAEI, an organization of over 1,000 members, was founded in 1921, and is dedicated to the promotion of fair and open trade. Our member companies produce a broad range of products, including chemicals, machinery, electronics, textiles and apparel, footwear, food, automobiles, wine and specialty items. In addition, many support elements of the internatonal trade community -- customs brokers, freight forwarders, banks, attorneys and insurance firms -- are active members of AAEI. I am accompanied by special counsel to AAEI, Michael P. Daniels of the law firm of Mudge Rose Guthrie Alexander & Ferdon.

Introduction

We are here today in complete opposition to the passage of S. 680, the Textile and Apparel Trade Enforcement Act of 1985.

AAEI shares the concerns of Congress with our trade problems. Our country simply cannot long sustain the enormous deficit in our trade account.

We believe, however, that the fundamental problem facing U.S. trade is not bad trade policy. The fundamental problem is in the overvalued dollar which is a direct result of poor fiscal and monetary policies. Our soaring budget deficit is the prime reason behind high U.S. interest rates and the stubborn overvaluation of the dollar. We must act immediately to reduce our budget deficit. In addition, we need to adopt a more expansive monetary policy to reduce interest rates. The high dollar has made it impossible to increase our exports, at the same time that it has led to major import gains across a broad spectrum of products and industries. The trade proposals before the Congress do not address the budget deficit and high interest rates that sustain the present exchange rate misalignment.

The AAEI believes that the trade crisis is not resolveable through protectionist actions. Indeed, reducing our imports through protectionism may actually exacerbate our problems. Other countries will certainly retaliate, and our exports will decline. Inefficiencies in our economy will be increased, not decreased.

Import surcharges, now a popular "quick fix" proposal, are a chimera. Instead of bringing the dollar down, they will increase its value. Other sector or country-specific bills also have little to recommend them. Neither single sector protection such as the textile bill, nor surcharges which purport to reduce the trade deficit will accomplish their goals. Surcharges, like quotas, will, according to the Congressional Budget Office report completed for this Committee, result in reduced prosperity: inflation, high interest rates, and an even higher dollar are the hallmark of such protection.

S. 680 does not even begin to provide a solution to the problems we face. On the contrary, the bill is a prescription for even worse problems. It will choke off imports from developing countries. Many of these countries need to export their competitive products to service their debt, much of which is owed to U.S. banks. The developing country debt problem is also another prime contributor to the slump in our exports. Debt service needs have caused developing countries to sharply reduce imports and erect new import barriers. Under the bill, developing countries will be denied the foreign exchange necessary to purchase U.S. products, and it will lead them to turn elsewhere for the products they remain able to purchase.

The Congress needs to consider methods to provide new finance to developing countries. Only a resolution of the debt problem will permit renewed developing country trade liberalization and an expansion of U.S. exports to them.

In short, S. 680 is a giant step backwards. It represents an opportunistic effort by the textile industry to use the current crisis in our trade picture to satisfy its appetite for ever more protection. AAEI sees no useful purpose to be served from the consideration of S. 680. It will not address those problems crying out for solutions.

Let us examine our national priorities and see where S. 680 fits in.

First, AAEI has always opposed protectionism. At the same time, we need to remove foreign barriers to the export of our products. Any additional protection provided to the U.S. textile and apparel industry will cause retaliation against other export sectors of our economy, and will increase the barriers to U.S. exports. S. 680 will impose other huge costs on the American consumer.

Second, the textile bill now before the Congress would clearly repudiate our international commitments, and would exacerbate a discriminatory control system that leaves our trade policy without credibility in the developing countries of the world. We need the cooperation of the developing countries targetted by the bill to succeed in multilateral negotiations within the GATT and in bilateral negotiations. If S. 680 is enacted, developing countries will feel betrayed. And they will ignore or even oppose our trade interests in the future.

Third, the textile and apparel industry is already the most protected sector of our economy, and no further protection is justified. We can discern no logical argument for the "special case" scenario advanced by the domestic textile and apparel industry. The growth in imports experienced in 1982-84, is now controlled. A rollback of imports, as contemplated by S. 680, is unwarranted.

Let me expand on each point.

1. The Cost of Protection

I do not think there can be any doubt that S. 680 will sacrifice U.S. exports in other sectors to wrap the textile industry in an even tighter cocoon of protection. U.S. exports will suffer in three ways. First, passage of the bill will lead to "primary" retaliation. China, for one, has clearly promised retaliation if S. 680 is enacted, and China has kept its promises in the past. In 1983, China cancelled large grain purchases from the United States in response to the unilateral U.S. imposition of restraints on Chinese textile and apparel exports.

The Chinese example also illustrates the second aspect of the price to be paid by other U.S. export sectors. This can be described as "diversionary" retaliation. Once a country diverts its sourcing away from the United States to other nations, the United States will find it difficult to recover the market. The percentage of the Chinese grain imports supplied by U.S. shippers remains depressed from pre-1983 levels. Thus, a permanent loss in U.S. markets caused by retaliation could be felt in a variety of sectors.

Third, even if the countries adversely affected by S. 680 undertake no direct retaliation, they would suffer a decline in their foreign exchange earnings. Consequently, they would be able to purchase fewer goods from abroad, including U.S. goods. Countries most affected by the bill, such as China and Brazil, would be forced to reduce their imports as a result of foreign exchange losses from S. 680. In the case of China alone, the loss would be approximately $600 million. Minimum estimates for the 13 largest controlled suppliers defined as "major" under the bill, indicate an annual loss of approximately $3.5 billion in foreign exchange.

In addition, the bill will also place a heavy new burden upon the American consumer. The Administration estimates that the cost of the bill to the consumer will be $14 billion. Prices of imported textiles and apparel would increase 15 to 30 percent, and overall prices would jump 10 percent or more. In a recent study by the Federal Reserve Bank of New York, the cost of the current protection on clothing alone was estimated at $8.5 to $12 billion. This study did not estimate the cost of restrictions on textiles. In 1984, according to Gary Hufbauer of the Institute for International Economics, the level of protection enjoyed by the entire textile and apparel industry was probably about $26 billion.

Thus, the bill under consideration would raise the cost to the consumer to more than $40 billion annually ($26 billion in existing protection plus $14 billion of new protection under S. 680), or $167 for every man, woman and child in the United States.

2. The Textile Bill Sacrifices Broader U.S. Interests

Our second point is that the passage of S. 680 will sacrifice broader U.S. trade policy goals for the selfish interests of a single U.S. industry.

The bill contemplated would unilaterally abrogate the MFA, 34 bilateral agreements negotiated within the framework of the MFA, and the GATT.

The domestic industry fought long and hard to establish the existing framework for textile trade which allows discriminatory import restrictions on a product-by-product and country-by-country basis. The system represents a retreat by the United States from its international commitments under the GATT, and it has strained the entire GATT-system. The present MFA is inconsistent with the safeguard provisions of Article XIX of the GATT, which prohibit the "selective" imposition of import restrictions, and require that compensation be provided when import restrictions are imposed. The present system is also blatantly discriminatory. We no not control imports from Canada or the EC. There is no basis for this discrimination. The textile bill will exacerbate this discrimination.

In February 1985, the report of a special GATT commission, on which Senator Bill Bradley served, tabled a unanimous report. Among the fifteen recommendations made in the "Wisemen's Report" was one specifically on trade in textiles and apparel. It is worth quoting:

> No clearer example exists of the mistakes in deviating from the essential principles of a multilateral trading system then the Multifiber Arrangement which since 1973 has restricted the development of trade in textiles and clothing. Sectoral and discriminatory in nature, directed against developing countries as a whole, and inimical to the operation of comparative advantage even among developing countries, it should be brought to an end.
>
> The present "MFA III" expires in July 1986. This presents an opportunity to set in

> place procedures to bring trade in textiles and clothing back within the normal GATT rules over a clearly-defined time period. Such a transition would have to be gradual. Even when completed, industries in trouble would of course still be able to make use of the safeguard protection available to them under the GATT rules. Adjustment policies aimed at improving the ability of companies and workers to deal with change would undoubtedly be necessary to ease and speed up the process of transition. The more far-sighted and generous the adjustment policies are, the more rapid the transition can be.

Certainly, creative adjustment programs must be implemented to smooth the route toward liberalization in the textiles sector. In the meantime, the MFA negotiations will provide the necessary forum to manage international textile and apparel trade. We strongly urge the Committee to pursue the options of adjustment and negotiation, rather than unilateral protection.

S. 680 is particularly ill-advised since a new MFA negotiating session commenced in July in Geneva. The negotiations are designed to lead to a new framework for textile trade when the present MFA expires in 1986. The interests of the U.S. industry will, as they have in the past, be reflected in the position of the U.S. negotiators. By pressing for passage of S. 680, the domestic industry is once again trying to "change the rules", without regard for the integrity of the United States as a negotiating and trading partner, the viability of the GATT, or the interests of all of the other sectors of our economy. The passage of the bill now before the Congress would torpedo the MFA negotiations.

The members of AAEI believe that trade policy issues should be addressed in both a multilateral and a bilateral context. Most importantly, we need to negotiate a reduction in foreign country barriers to our products. Protectionism, as the experiences of the 1930s proved, will reduce prosperity, not increase it.

AAEI supports U.S. efforts at improving market access abroad for U.S. exports. AAEI believes that these efforts, in conjunction with monetary and fiscal reform, and a resolution of the developing country debt problem, can help restore the U.S. trade position in a way beneficial to our economy as a whole.

Meetings are underway to initiate a new GATT round of multilateral trade negotiations. Our agenda is a long one: services, high technology products, intellectual property, agriculture, and performance requirements. We need the cooperation of the developing country textile suppliers to both initiate the new round and to assure attention to our agenda. If this bill passes, our requests for cooperation will be ignored. If we tear up the already bad deal that we have handed the developing countries, can we possibly be surprised in the future when they reject our agenda at the GATT. Likewise, we are now looking to augment our efforts at trade liberalization though bilateral initiatives, and many of these efforts are aimed at the textile suppliers. Again, the textile bill will damage these efforts. Indeed, without trying to sound hysterical or shrill, AAEI believes that international trade policy is at a watershed: either we will keep pushing the world towards the option of open trade, or we will succumb to a protectionist spiral that will have results no less disastrous then those of the Smoot-Hawley era. The textile issue, as the Wisemen's Report recognized, is a touchstone of the international system.

3. Textile and Apparel Import Growth is Already Controlled

Our final point concerns the fact that the domestic textile and apparel industry is already the most protected sector of our economy. Additional forms of protection are not warranted. The rapid growth in imports experienced in the 1982-84 period has not continued in 1985. For the first seven months of this year, textile and apparel imports have declined compared to the same period in 1984. The decline in imports is in part the consequence of a steadily tightened import control program that the United States has established through bilateral agreements under the MFA, the expenditure of vast government resources on the administration of its existing textile control program, including stricter regulations, and the implementation of over 650 quotas on products from more than 30 countries. The Administration has not been lax in its enforcement efforts pursuant to the MFA. In addition, the domestic industry enjoys average tariff protection of 22.3 percent, compared to average U.S. tariff protection of under 5 percent.

According to data published by the U.S. Department of Commerce, for the period of January-July 1985, compared to the same period in 1984, imports of MFA products have fallen from all of the major controlled suppliers: Taiwan by 11.15 percent, South Korea by 9.12 percent, Hong Kong by 7.80 percent, China by 20.19 percent, and Japan by 8.39 percent. These five suppliers account for 50 percent of total MFA imports. But, as the experience thus far in 1985 indicates, potential growth from these suppliers has been virtually eliminated. Almost all of the MFA trade from these countries is now under quota: Taiwan - 90 percent, Hong Kong - 95 percent, Korea - 92 percent, China - 75 percent. Indeed, total U.S. textile imports would have fallen further during the first seven months of 1985 except that imports from uncontrolled suppliers such as Italy, West Germany, the United Kingdom, France, and Spain increased.

Other smaller developing countries have increased their imports to the United States. These suppliers all start from a modest base, and the bill before the Committee would cause their industries to be choked off in favor of imports from uncontrolled OECD nations. For example, although India, the Philippines and Thailand have registered gains in 1985, their import market shares vary from only 2.39 to 2.65 percent. Other developing countries that have increased their exports all have market shares between 0.13 and 1.48 percent. In supporting S. 680, the domestic industry is attempting to "nip in the bud" imports from these new producers, which need textiles and apparel exports for their economic development, by establishing quotas on all products from even the tiniest supplier.

Conclusion

In short, AAEI does not see that any case can be made for the passage of S. 680. The domestic textile and apparel industry enjoys more protection than any other sector of our economy. Import growth from the most significant developing country suppliers has been controlled. Import growth in the 1982-84 period was related more to the expanding U.S. economy and strengthening dollar than "loopholes" in the MFA or faulty administration of bilateral agreements. Passage of S. 680 risks serious retaliation and export losses in other sectors of the U.S. economy.

We cannot permit our frustrations over our trade and current account deficits to lead us to adopt easy but wrong solutions. Our trade policy concerns are far too important to be sacrificed to the demands of the textile and apparel industry. Barriers to imports will not create economic gains. We must seek fundamental solutions in fiscal and monetary measures, and in creative trade policies aimed at reducing foreign barriers to our exports.

Senator DANFORTH. Mr. Weiser.

STATEMENT OF STEVEN S. WEISER, ESQ., COUNSEL, SIEGEL, MANDELL & DAVIDSON, P.C., NEW YORK, NY

Mr. WEISER. Thank you, Mr. Chairman.

My name is Steven S. Weiser, of the law firm of Siegel, Mandell & Davidson. I am accompanied by Robert Katchen of my firm. We are appearing today on behalf of Adorence Co., Marisa Christina, Ellen Tracy, and United States Shoe Corp. to voice our opposition to S. 680.

Our firm specializes in the practice of customs and international trade law, with an emphasis in the area of textiles and wearing apparel.

It is not without compassion that those of us within the international trade community view the displacement of American workers within the manufacturing sector by foreign imports. However, as consumer demand for textile products fairly coincided with the strong dollar, overall growth in textile imports between 1982 and 1984 was significant. Consequently, we are now presented with S. 680, which conceptually has as its two prime elements the globalization scheme and the establishment of an import-licensing system.

In the short time allotted, I think it would be profitable to look at a precise illustration of how this bill would work if applied to a single major exporting country.

As most of us are especially concerned with the impact of this bill on developing countries, and in view of the unsuccessful coup attempt earlier this week which was allegedly staged by reason of unstable economic conditions, Thailand will serve as our test country.

Looking at all wearing apparel of manmade fibers under quota, pursuant to the original bilateral agreement of 1983, which was negotiated within the framework of the MFA, the restraints in the current-year stand at individual levels totaling 2,772,184 dozens. Under S. 680 the total of the individual categories would equal 1,357,526 dozens, or a rollback of over 51 percent.

Not included in these figures is men's woven shirts, category 640, for which an amendment to the agreement was just finalized in late July at 320,000 dozens for the period May 1, to the end of this year. Under the bill, the quota would be rolled back to 31,219 dozens, a decrease in excess of 90 percent.

If such a legislative measure passed, would we not be sending a message to the Government of Thailand that we are indifferent to its economic plight? Can we in good faith turn our face away from a country which is in the grasp of an aggressive Communist threat and not expect a reaction when we unilaterally abrogate both long-standing and recent agreements on trade in textiles? And can we not reasonably expect retaliation against such punitive measures?

Although the answers seem easy and obvious, especially when one views the larger picture, we appreciate that the options for members of this body are much more difficult in light of the ever-mounting domestic pressures which are being exerted. We submit that this is the time for courage and leadership, and that, if there are instances where protection of a domestic industry should be heightened, this is not one of them.

The costs to the American consumer and to the United States as a whole are simply too high. The perils of this bill have been well documented. No right-thinking American is desirous of a trade war and what will ensue therefrom.

Therefore, we sincerely recommend the rejection of S. 680.

Thank you, Mr. Chairman, for your patience and fortitude throughout this late hearing. We so appreciate the opportunity to be heard on this very important piece of legislation, and we would welcome any questions you may have.

Senator **Danforth**. Well, I think the witnesses deserve the patience and fortitude medal.

[Mr. Weiser's written testimony follows:]

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REPRESENTING ADORENCE COMPANY, INC., MARISA CHRISTINA HOLDINGS, INC., ELLEN TRACY, INC. AND U.S. SHOE CORPORATION

APPEARANCE BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE SENATE FINANCE COMMITTEE
SEPTEMBER 12, 1985

HEARINGS ON S. 680 -
THE TEXTILE AND APPAREL TRADE
ENFORCEMENT ACT OF 1985

SUMMARY OF PRINCIPAL POINTS OF TESTIMONY

The globalization of textile quotas which S. 680 seeks to impose would act as a unilateral abrogation of the Arrangement Regarding International Trade in Textiles (MFA) as well as all United States bilateral textile agreements. This would run the grave risk of initiating widespread retaliation among our trading partners and could result in a 1930's-style trade war.

The de minimis criterion used to define a "major exporting country" (i.e., 1.25% or more of total U.S. textile/apparel imports) is well below what is reasonable as many third world nations, relatively tiny in size, most of which are underdeveloped and striving to have stable economies, will be discriminated against under S. 680 (e.g., Thailand, Singapore, the Philippines, and Pakistan).

Severe quota "rollbacks", i.e., decreases in previously negotiated quota levels for particular quota categories, would likewise inflict severe harm on third world nations which can ill-afford reductions in their textile imports. Thus, the bill represents not only poor trade policy but illogical foreign policy that strikes at areas of the world in which the U.S. has a vital interest in fashioning economic stability.

S. 680 violates the MFA and our bilateral textile agreements not only through globalization of quotas but also by unilaterally increasing product coverage to non-MFA fibers (e.g., silk, linen and ramie) without the consent of other signatories.

The import licensing system created by S. 680 is dangerously vague and ambiguous and poses a significant non-tariff barrier in view of the unrestricted delegation of power granted to the Secretary of Commerce. This system would inflict dual administrative and financial burdens on importers.

The cost of protecting our domestic textile industry has now reached proportions which are economically injurious to not only American importers but also to the American consumer. The domestic textile industry is already one of the most highly protected industries in the United States, and is the beneficiary of a wide array of special measures designed to curtail textile imports.

In view of the fact that S. 680 is clearly inconsistent with our international obligations, is inflationary, and burdens rather than promotes our own exports (as it virtually guarantees to trigger a bombardment of retaliatory measures against U.S. imports), we voice our strong opposition to it.

Mr. Chairman and members of the Subcommittee on International Trade, my name is Steven S. Weiser of the law firm of Siegel, Mandell & Davidson, P.C. I am here today on behalf of a number of our clients: Adorence Company, Inc., Marisa Christina Holdings, Inc., Ellen Tracy, Inc. and U.S. Shoe Corporation. We appreciate this opportunity to present our views in opposition to S. 680, also known as "The Textile and Apparel Trade Enforcement Act of 1985".

We are constrained to state that we regard this proposed piece of legislation to be an extremely ill-advised, however tempting, foray into protectionism vis-a-vis textile imports. The primary aims of the proposed bill, S. 680, are to "globalize" textile quotas and to establish an import licensing system. As we will discuss, both of these objectives are, for multi-faceted reasons, potentially injurious to the United States in economic and political spheres and, in the final analysis, inimical to our national interest.

"Globalization" - Discriminatory and Antithetical to U.S. Trade and Foreign Policy Goals

The first area which we will focus on is the so-called "globalization" of textile import quotas which Section 5 of S. 680 seeks to effect. Summarily, the globalization of textile quotas mandates the complete disintegration of our system of bilateral textile agreements, which system has been extant for approximately the past 15 years. Replacing it would be a creature of statute, based not on the consensus of the United States and its trading partners, but rather solely upon the unilateral action of our government. Irrespective of considerations which would dictate otherwise, individual nations would be treated indiscriminately (with certain exceptions for the EEC, Canada and the Caribbean region) based upon a quantitative comparison of their total imports into the United States as compared with the world-wide figure.

Thus, countries whose exports to the United States equal or exceed 1.25 percent of total United States textile/apparel imports would be termed "major exporting countries" while countries whose exports to the United States represent less than 1.25 percent thereof would be deemed "exporting countries". Overall, quota levels in 1985 would be sharply reduced for "major exporting countries" (estimates range between 25 to 45 percent) and growth would be limited to one percent per annum in every quota category irrespective of the "import sensitivity" of a particular product.

It is not debatable that this bill would act as a unilateral abrogation of the Arrangement Regarding International Trade in Textiles, commonly known as the

Multi-Fiber Arrangement ("MFA") as well as all United States bilateral textile agreements. The United States currently has over thirty bilateral agreements establishing quantitative restrictions on imports of textiles and textile products. These agreements were generally entered into under the framework provided by the MFA which was, in turn, negotiated under the auspices of the General Agreement on Tariffs and Trade (GATT). Article 3, Section 1 of the MFA provides that no new restrictions on trade in textile products shall be introduced by participating countries nor should existing restrictions be intensified unless the same were justified under the provisions of the GATT or the MFA. The restrictions in S. 680 drastically reduce imports and clearly depart from the remedial procedures available under Articles 3 and 8 of the MFA which allow signatory countries to enforce their rights under the MFA and avoid circumvention thereof.

Congress has heretofore seen fit to delegate its Constitutional power to the President to negotiate and implement trade agreements, not only in the textiles area but for all other product sectors as well. This delegation has led to the development of goodwill between the United States and its trading partners and, most importantly, to a high degree of reliability that the United States will honor its international trade commitments. The proposed legislation, if enacted, will violate our international obligations and severely undermine the integrity of the Executive branch to negotiate and maintain trade agreements. While we do not challenge the power of Congress to abrogate such Executive agreements, we seriously question the wisdom in so doing, particularly in the present case where the MFA will expire in July, 1986 and negotiations for renewal are scheduled to begin forthwith in Geneva. What certainty and reliability can there be in international relations if succeeding administrations (or Congresses) permit the negation of agreements reached among foreign countries and prior administrations? Congressional abrogation of all of our textile agreements runs the grave risk of initiating a 1930's-style trade war. Widespread retaliation by our trading partners against United States goods is the logical outcome of this legislation with agricultural exports being a major target.

Another objection to globalization is the de minimis criterion used to define a "major exporting country". As previously discussed, with certain exceptions, a major exporting country is defined as a country whose exports to the United States equal or exceed 1.25 percent of the total U.S. textile/apparel imports. The designation of a 1.25 percent factor to determine a major exporting country is well below what is reasonable as many third world nations, relatively tiny in size, most of which are underdeveloped and striving to have stable economies, will be discriminated against under S. 680 (e.g., Thailand, Singapore, the Philippines and Pakistan).

One of the most objectionable aspects of this legislation involves the application of quota "rollbacks", i.e., decreases in previously negotiated quota levels for particular quota categories. These rollbacks would inflict severe harm to these same third world countries which nations can ill afford reductions in their textile exports. Of particular concern is the adverse effect upon the People's Republic of China as our computations reveal that rollbacks against China would be among the most drastic.

Our relationship with China is viewed by many learned observers to be our most vital in the third world. China represents a vast potential reservoir for United States exports. The economic, political, and strategic benefits which the United States can reap through access to the Chinese marketplace are enormous. However, S. 680 assists to block this access by placing an insurmountable obstacle in the paths of United States businessmen seeking to nurture trading relationships. Over five years ago we opened the "trade door" to the People's Republic of China by treating her as a "most favored nation" under our tariff laws. S. 680 will close rather than open export opportunities for U.S. manufacturers and farmers and worsen the U.S.-China relationship in the process.

When one ponders that China and India together (the latter would also be considered a "major exporting country" under the bill) hold in excess of one-third of the world population within their borders and represent a relatively untapped marketplace, one may shudder at this attempt to severely restrict those countries' most important exports, textiles and textile products. Does our government really believe that these and other countries will idly stand by in the face of the abrogation of our freely negotiated agreements?

Through the years, developing countries have been increasingly reliant upon the production of textiles in order to obtain the foreign currency they need to spur their economies. There is an economic evolution that occurs in most countries (the United States is an example), whereby the agricultural industry is the forerunner of all industries with textiles next in succession. After textiles, there is a progression into higher technological operations. This progression is typified by Japan which twenty years ago was the world's leading textile and apparel manufacturer and today has moved into more advanced areas. Hong Kong, Korea and Taiwan have now moved into the forefront of textile manufacturing allowing them to become prospering and stable economies. Currently, a new group of countries which, in addition to China and India, includes Indonesia, Thailand, Pakistan, Bangladesh and Malaysia, is struggling to prosper and become stable economically through current dependence upon textile production. We are hard-pressed to understand the rationale used by the drafters of S. 680 which treats these developing countries in a harsher manner than the EEC, Canada or the Caribbean Basin nations. It would appear that such a distinction makes S. 680 a discriminatory piece of legislation. The enactment of S. 680 would injure these countries and sends them a clear message of the United States' indifference to their economic plights. Ironically, our trade deficit will in all likelihood, get worse as these and other developing countries will have less revenue to purchase U.S. goods.

Consequently, this bill represents not only poor trade policy but illogical foreign policy that strikes at areas of the world in which the United States has a vital interest to assist in fashioning economic stability. Trade is our most effective peaceful tool against Soviet incursions and aspirations. Our trade policy should reflect our national interest and help to strengthen and not weaken our position in the turbulent third world. A nurturing relationship between the United States and the third world demands a closer economic nexus - S. 680 is inconsistent with this objective.

Non-MFA and Wool Fibers - Anomalous Results

Another major area of concern involves the inclusion of non-MFA fibers (*i.e.*, silk, linen, ramie) within the globalization scheme contemplated by S. 680. Products of these fibers are beyond the ambit of any of our current bilateral agreements. To the best of our knowledge, these fibers are not domestically produced in significant commercial quantities. We are not familiar with any large-scale breeding farms in the United States where silk worms are reproduced for silk production nor do we believe that linen and ramie are meaningful domestic crops. Therefore, we are somewhat confused as to exactly which United States industry requires protection from foreign textiles made of these fibers.

Moreover, these relatively very expensive non-MFA fibers possess qualities which are not comparable to cotton, wool, or man-made fibers. Silk is a very fine, lustrous and resilient fiber which is esthetically enhancing. Linen and ramie are also very fine, long staple, smooth and glossy fibers noted for their resiliency. The characteristics embodied in these fibers are very distinct from any fibers produced domestically and, therefore, imports of non-MFA textile products pose no threat to U.S. industries involved in the manufacturing of non-MFA products.

Furthermore, it is important to note that under Article 12, Section 1 of the MFA (and under all of the bilateral textile agreements negotiated thereunder) the United States has agreed to quantitive restrictions with respect to only the following:

> . . . . tops, yarns, piece goods, made-up articles, garments and other textile manufactured products (being products which derive their chief characteristics from their textile components) of cotton, wool, man-made fibers or blends thereof, in which any or all of those fibers in combination represent either the chief value of the fibers of 50 percent or more by weight (or 17 percent or more by weight of wool) of the product.

Thus, S. 680 would again be in direct contravention of the MFA and the bilaterals thereby breaching the terms of both. In effect, S. 680 violates the MFA and bilateral textile agreements not only through globalization of quotas but also by unilaterally increasing product coverage without the consent of other signatories.

Morever, there are several technical problems in the bill which make it impossible to effectuate when applied to non-MFA fibers. Because there are no textile agreements covering these fibers and, consequently, no data going back to 1980, the formulas for computing textile imports from "major exporting countries" are useless. The unreasonableness of S. 680 is further seen by applying its "import sensitive" criteria to these fibers. Pursuant to Section 4 of the bill, an "import sensitive category" is a category in which the imports are 40% or more of domestic production for the preceding year and, therefore, mandatorily subject to a 1% annual growth rate. All non-MFA merchandise will be "import sensitive" by definition as domestic production is virtually nil. Therefore, an absurd situation would result in that non-MFA products would be categorized as "import sensitive" because of the lack of domestic production rather than the presence of same.

We believe that this is a basic flaw in the bill which is applicable to not only non-MFA products but also to products which, for whatever reason, are not substantially produced domestically.

The term "wool products" as defined in S. 680 represents yet another problem area. The definition encompasses those articles containing over 17 percent by weight of wool thereby representing a significant departure from current law. Under the Tariff Schedules of the United States (TSUS), an article 80% acrylic and 20% wool would currently be classified for tariff and quota purposes as an article of man-made fibers. Accordingly, pursuant to S. 680 this article would be subject to wool quota limited to a 1 percent annual growth rate. This anomalous result would also be obtained under the Harmonized System which is proposed to go into effect January 1, 1987.

Import Licensing System - Ambiguous, Costly and Dangerous

The second primary focus of this bill is the initiation and implementation of an import licensing system in Section 6. Such a system would require an importer to obtain a license from the United States government to import specific textile products thereby creating a dual burden on importers who already must comply with the export license or visa systems of many exporting countries.

A most disturbing feature of S. 680 is that it provides no guidelines or parameters for the Department of Commerce to follow in order to implement an import licensing system. Instead, S. 680 delegates unlimited authority to the Secretary of Commerce to promulgate regulations without any clue as to what shape the system is to have. Consequently, a significant potential for a monumental non-tariff barrier exists in view of this unrestricted delegation of power. Without a clear statement of Congressional purpose and direction, it is submitted that this measure is dangerously vague and ambiguous.

Although at this juncture we can only speculate, an import licensing system can take one of only a limited number of forms. One possible version of the system would consist of a scheme whereby the importer would apply to the appropriate agency of the United States government (e.g., Department of Commerce) for a license to import particular merchandise and allocation would be made on a historical basis according to the importer's previous import performance. This type of system would favor large-scale importers whose past performance record would entitle them to a greater license allocation thereby disadvantaging smaller businessmen and discouraging new market entrants. Consequently, a small number of large importers would control a disproportionate percentage of the textile licenses severely curtailing competition and driving prices of imports upward.

However, the historical basis of allocation is, by itself, inadequate as a method of distributing licenses, as it is based on performance levels and for many developing countries, which either never produced or commenced production in new product categories, performance data is non-existent. Therefore, development of an ancillary measure to distribute licenses would be necessary to address these instances.

Another possible version of the import licensing system would be an auction system whereby licenses are sold by the government to the highest bidder. In fact, this is precisely the type of system recommended to the President by a majority of the International Trade Commission in a recent footwear escape clause case (Nonrubber Footwear, Report to the President on Investigation No. TA-201-55, USITC Publication 1717, July 1985). Once again, larger and wealthier importers would benefit because of their ability to pay higher prices for licenses. Not only would an inequitable allocation of licenses be the likely outcome of the implementation of such an auction scheme, but the high price for these licenses would necessarily lead to higher prices charged for merchandise at the wholesale and retail level.

Regardless of the scheme (historical or auction system), the requirement that an importer obtain an import license presents many other problems and questions. For instance, how far in advance of shipment must the license be purchased? Lead times are very important to wearing apparel importers and assurance of getting the goods into the country is essential.

Furthermore, once the license is purchased, can it be cancelled, refunded, or transferred if no longer needed or is it forfeited? The textile industry is a very fashion-conscious business and if licenses are purchased too far in advance, they may not be needed for the particular merchandise at a later date. In addition, one can envision a scenario where an importer's foreign supplier obtains the necessary quota allocation to export merchandise but the importer is unable to obtain the necessary licenses to import the same goods. Thus, the importer would be caught in a "Catch-22" situation whereby goods have been paid for and exported from the manufacturing country but cannot be imported into the United States.

Under a scenario where importers are allowed to transfer licenses, a system similar to the Hong Kong export quota system might prevail whereby licenses are bought and sold much like a commodity future or stock. Contingent on market conditions of supply and demand, import licenses would have a value independent of the value of the wearing apparel itself and it is conceivable that the cost of procuring the import license might surpass the cost of manufacture of the article itself. In fact, this is precisely what happened in Hong Kong in 1984 when quota prices for wool sweaters became so astronomical that manufacturers which held quota found it more profitable to sell the quota than to use the quota by producing garments. Nor was that a unique case; it has happened many times in the past.

One can clearly perceive the dual administrative and financial burden that would be inflicted upon importers under the guise of an import licensing system. Importers would pay for quota at the exporting end and then be forced to pay a fee to procure an import license for the privilege of bringing the textile goods into the United States. However, it is painfully clear that the American consumer will ultimately bear the additional costs that such a system would entail by being forced to pay higher prices for textile goods at the retail level. Moreover, if a secondary market develops for the trading or resale of import licenses, retail prices for soft goods would spiral still higher.

Protectionism - A Level Playing Field?

The cost of protecting our domestic textile industry has now reached proportions which are economically injurious to not only American importers but also to the American consumer. In a 1984 Federal Trade Commission study entitled "Import Quotas on Textiles: The Welfare Effects of United States Restrictions on Hong Kong", it was concluded that the cost to the American economy of maintaining quotas on only thirteen wearing apparel quota categories from Hong Kong for 1980 equalled $308 million. The study went on to state that, as an employment factor, some 8,891 jobs in the textile industry were created by maintaining these quotas. Thus, the cost of these quotas could be computed as roughly $34,500 per worker annually. If we can interpolate by including all product categories from all countries, the total drain on the American economy and, hence, the consumer, is staggering. In effect, we are subsidizing employment at a rate which is many times the earnings of the textile worker - and we are doing this year after year. S. 680 can only serve to exacerbate this situation further.

The proposed legislation would act in a multi-faceted manner to increase prices for textile and apparel imports. The rollback of quotas which S. 680 seeks to impose would decrease the availability of quota which, in effect, would increase the prices for quota. Moreover, the reduction in quota would encourage exporting countries to produce higher quality and higher priced merchandise in order to reap higher profits. This would naturally affect the availability of children's clothing as well as that of low priced imports which our lower income population are dependent upon.

Another way in which S. 680 will cause prices to increase is that sourcing will move from the developing countries of the Far East to the EEC, Canada, the Caribbean and South America where wages are much higher. Furthermore, as previously mentioned, the import licensing scheme will also cause prices to increase by forcing importers to incur an additional cost in order to import goods.

The domestic textile industry is already one of the most highly protected industries in the United States, and is the beneficiary of a wide array of special measures designed to curtail textile imports. Textile importers have been forced to face a heavy barrage of tariff and non-tariff barriers including the following:

> Extensive Quota System: The Customs Service, in conjunction with the Commerce Department, administers a vast quota and visa system in order to ensure compliance with the MFA, unilateral restraints and our bilateral agreements. The Committee for the Implementation of Textile Agreements ("CITA") is responsible for monitoring approximately 650 distinct quota categories covering 34 countries. In recent years there has been a drastic increase in consultation calls leading to the imposition of restraints in previously uncontrolled quota categories. In fact, the Reagan Administration has instituted over 300 new quota restraints since 1981. The basis for these calls has been simplified by a "presumption" of market disruption which was established by the Administration at the end of 1983.
>
> Furthermore, it is important to note that the quota system represents much more than just a quantitative restriction on imported goods. The quota system is inherently plagued with

additional non-tariff barriers which impede the American importer. For instance, a significant non-tariff barrier exists in the fact that there is no written administrative procedure within the Customs Service or the Commerce Department whereby an importer can obtain a ruling on quota category determinations. This is quite distressing in view of the comprehensive system of quota categorization. For example, a ladies' 12 gauge knit pullover made of 100% acrylic might be categorized as either a shirt under Category 639 or as a sweater under Category 646. Actual discrepancies as to categorization exist and have serious ramifications as different categories from a particular country have different quantitative limitations and different visa requirements. If garments are not visaed under what is allegedly the "appropriate" quota category, they will not be permitted entry into the United States.

Although the Customs Service has administrative procedures with respect to the issuance of binding rulings as to tariff classification, it has absolutely no formal procedure for quota categorization: rather decisions are made on an ad hoc basis. Consequently, an importer cannot safely plan in advance and be certain that he is obtaining the correct quota category for his merchandise. The average wearing apparel importer usually has three or four seasons of merchandise, with anywhere from one to two hundred styles per season. Thus, the absence of appropriate procedures acts as a severe non-tariff barrier, transcending mere quantitative restraints, which leaves importers behind a curtain of uncertainty.

High Tariffs: Textile articles are assessed with extremely high tariffs, averaging 22.3%, compared to all other goods which together have an average tariff of approximately 5%.

New Country of Origin Regulations: Effective April 4, 1985, the Customs Service implemented a new set of regulations which were allegedly designed to prevent circumvention of the MFA and our bilateral agreements. Under this guise, the regulations have drastically altered traditional country of origin rules and have created an administrative burden and additional cost for importers who must comply with extensive documentation requirements. The regulations redefine "Country of Origin" thereby altering the manner in which quota is charged in situations where multi-country manufacturing of textiles and textile products occurs.

Exemptions from Trade Liberalizing Agreements: The domestic textile industry has received special treatment under the General System of Preferences (GSP) and Caribbean Basin Initiative (CBI) by having almost all textiles excluded from the list of articles eligible for duty-free treatment.

Phased Entry System: As of January 1, 1985, when an annual limit goes into effect on a textile category which is currently under embargo, the Customs Service may act to limit entry into the United States for consumption, or withdrawal from warehouse, of goods which were exported during the previous restraint period. The flow of goods into the United States may be limited to a rate of not more than 20% of the new annual limit during each of the first five months of the new restraint period. This system was initiated in order to prevent market disruption when a category reopens. However, it has served to hinder the efforts of importers to import their products in a timely fashion. In most instances, these embargoed goods have been fully paid for prior to shipment from the exporting country. The phased entry system may force these goods to stay embargoed long after the category has reopened. The warehouse costs are often substantial and by the time the merchandise is allowed to enter, it is often outdated due to its highly fashionable and trendy nature. Thus, another roadblock has been effectively placed in the paths of textile importers.

Conclusion

In summary, we submit that the proposed legislation is a protectionist bill whereby the goals of free and fair trade are thwarted. Because this bill is clearly inconsistent with our international obligations, is inflationary, and burdens rather than promotes our own exports (as it virtually guarantees to trigger a bombardment of retaliatory measures against U.S. imports), we voice our strong opposition to it.

We trust that this Subcommittee will carefully address the information before it and conclude that it is not in the national interest to impose the extreme measures that S. 680 attempts to exert on the American public and our trading partners.

Mr. Chairman, I wish to thank you and the members very much for the opportunity to state our position and I welcome any questions you may have.

Senator DANFORTH. I want to thank each one of you.

Let me ask you this: Do you feel that the textile and apparel industries should have any kind of import restriction? Or do you think that they should have none at all? Do you oppose this bill because you view this bill as going too far? Or do you think everything goes too far? Do you think that we should be looking for some way to help this industry through renegotiation of the MFA or possibly other means? Or do you think we should provide them with no import relief at all?

Mr. WEISER. Mr. Chairman, certainly the latter would be preferable.

Senator DANFORTH. The latter is nothing.

Mr. WEISER. No, no, no—the latter suggestion that you made with respect to renegotiation of the MFA.

Senator DANFORTH. In other words, I guess what I am asking is: If the President decided to take this on and tighten up the multifiber arrangement, close some loopholes, provide better protection for textiles and apparel, would you choke over that also? Are you purists in international trade, or are you more concerned about this particular bill?

Mr. WEISER. I am personally much more concerned about this particular bill. We are not living in an era of total protection or total free trade; we work within a framework of controlled markets and controlled trade. This is not a free-trade country. This bill is extreme in my view. In my opinion, the textile industry does have the most protection of any industry in the United States, and I am very afraid of the sacrifice of the bilateral framework which this bill would engender.

Senator **Danforth**. No, I understand that you are opposed to the bill. I just wanted to know whether you——

Mr. **Weiser**. I would keep the President as a negotiator of our textile agreements.

Senator **Danforth**. What is your view, Ms. Brown?

Ms. **Brown**. We would certainly prefer the gradual elimination of the MFA.

Senator **Danforth**. You really are a free trader?

Ms. **Brown**. We believe in an open trading system and we want to aim toward free trade, and we do not see any way of achieving what everyone claims they want in terms of free trade if we are going to take steps backward through our trade policies.

Senator **Danforth**. Right, but I mean, far from tightening up the multifiber arrangement, you want it——

Ms. **Brown**. Eventually eliminated. Very definitely. I think that the long history of textile-trade protection has shown that it is the worst thing that could have been happening to the textile and apparel trade industry. And if something doesn't work, then I think there is no sense in renewing it.

Senator **Danforth**. Mr. Gable, what do you think?

Mr. **Gable**. Citizens for a Sound Ecomony believes that the bill goes in the wrong direction. If we are going to spend resources to help those in the textile industry and other industries that are hurt by imports, we should make it explicit and be upfront about the costs to consumers and taxpayers. We should provide some sort of explicit welfare, in other words.

Senator **Danforth**. You are for something like trade adjustment assistance; but your idea is that any kind of protection is wrong?

Mr. **Gable**. Any kind of protection that distorts the market and increases the price to consumers.

Senator **Danforth**. So, for example, if one of the options would be to tighten up the MFA, you wouldn't like that, either?

Mr. **Gable**. That is correct.

Senator **Danforth**. You agree with Ms. Brown.

Mr. **Gable**. That is correct.

Senator **Danforth**. How about you, Mr. Milosh?

Mr. **Milosh**. To begin with, the MFA would be abrogated by this bill. Second, the MFA is highly restrictive in its own right. There have been 300 calls recently under the MFA. I think there is a legality, a legal question, and I would like to refer that to our counsel.

Senator **Danforth**. No, no; it is really a matter of policy. Your counsel can speak if he would like, but I am more interested in your view of whether the textile and apparel industries should be receiving any protection at all, whether we should be phasing out all kinds of protection, or whether you are just against this bill.

Mr. **Lewin**. If I might speak to that for a second.

My name is Martin Lewin.

Senator **Danforth**. Martin who?

Mr. **Lewin**. Lewin, L-e-w-i-n.

We have generally taken the view that textile and apparel imports should return to the GATT system. We recognize that an immediate return is not possible, and we believe that a gradual return is appropriate. We hope that in the upcoming MFA negotiations this issue can be addressed.

The question should be, which segments of the industry should be protected? Which segments do not need protection? And which segments cannot benefit from protection? And that, I think, is the distinction between negotiations under the MFA and the legislation.

So, we do favor, at this point, negotiation toward an extension of the MFA, with the idea of phaseout at a certain date.

Senator **Danforth**. But if you were the administration, you would not be offering much hope to the textile and apparel industries as to what could be accomplished by a renegotiated MFA?

Mr. **Lewin**. Well, the real question is: What has been accomplished? I think part of the problem we have is that we are looking backward rather than looking to the present and looking forward. The quotas that Mr. Milosh alluded to have had an impact and have tightened up controls on textile and apparel imports already. These were done within the context of the MFA.

During the first 6 months of this year, textile and apparel imports to the United States have declined slightly, and if you look at the larger suppliers, the suppliers which the bill focuses its concern on, you will see that trade from these suppliers has declined significantly. That includes Hong Kong, Taiwan, China, Korea, and Japan.

So, Hong Kong, China, Taiwan, and Korea are all controlled with 75 to 90 percent of their trade. So the issue is not necessarily whether it should be tightened, but rather what has happened and has it been effective. We think it has been effective. We think we are seeing the impact now, and that we will continue to see so. And we don't anticipate the type of growth in the future that we saw in the past 2 years.

Senator **Danforth**. Dr. Nelsen.

Dr. **Nelsen**. We are in a political environment, and no Member of Congress wants to go home and say that he ignored the problem.

What I think might solve everyone's problem is a resolution calling for a strict enforcement of the MFA. That would not necessarily send a signal overseas that we are now closing the door.

The bill is a very regressive bill. It has many, many bad factors to it. And at the same time, we have an election year coming up, and there is no way of ignoring that.

Senator **Danforth**. Every year is either an election year or one with an election year coming up.

Dr. **Nelsen**. Right. So, a statement to our friends giving the intent of Congress that strict enforcement will be implemented ought to accomplish both concerns.

Senator **Danforth**. How about closing some of the loopholes? I mean, some of the new products that just escape all the others? Would you mind that?

Dr. **Nelsen**. No.

I think one of the things you have to recognize is that there are many U.S. textile manufacturers who have overseas manufacturing facilities, you have overseas ownership of U.S. manufacturing, and it is very difficult to look at the whole thing with one clear answer, because there are many aspects to it.

Nobody likes loopholes, and so a statement that the loopholes are going to be closed would accomplish the public's or the constituents' desire without messing up the trading system.

Senator **DANFORTH**. So basically you are in agreement with Mr. Weiser?

Dr. **NELSEN**. Yes, I believe so. The bill is not a good bill; it has more negative aspects to it than positive. And if I may reiterate, negative legislation hardly ever has positive effects. The way to solve the problem is: Export expansion will create more employment.

Senator **DANFORTH**. I understand your basic point. It is just with respect to textiles and apparel, whether you offer any kind of solace to those industries. And I think I hear you saying, yes, provided it is through the MFA.

Dr. **NELSEN**. It is the responsibility of the individual and the corporation to look ahead. And if the market looks like it is diminishing, then diversify. Of course, they can't do that overnight, and the ones that have been living on wishful thinking might have to bear the pain of that.

Senator **DANFORTH**. You know, I was thinking about this during your testimony when you said the overall health of the economy is all right, and a lot of people are gaining jobs, and that we should look at the total picture, the economic picture. That is fine, except for the people in Windsor, MO.

Dr. **NELSEN**. The real problem, Senator, is that our economy is fantastic compared to most of the countries in the world. Take countries with 2- to 300-percent inflation.

Senator **DANFORTH**. I understand that. But the people in Windsor, MO, are worse off compared to the people of say Greenwich, CT.

Dr. **NELSEN**. Well——

Senator **DANFORTH**. In other words, they would get no satisfaction from you saying, "Well, why do you complain? Other people are doing fine."

Dr. **NELSEN**. The constituency always resists change—I mean, people resist change, in any area.

Senator **DANFORTH**. Suppose they are 60 years old and they live in Windsor, MO, and you are saying, "Pack your bag and move to Greenwich, CT?", And they say, "Where is that?"

Dr. **NELSEN**. Move to the Sun Belt where the jobs are. And there are parts of the country where there is a lack of skilled labor or even unskilled labor.

Senator **DANFORTH**. But they want to stay in Missouri. I don't blame them. [Laughter.]

Dr. **NELSEN**. I understand your point, sir.

Senator **DANFORTH**. Mr. Weiser?

Mr. **WEISER**. I am afraid, Senator, the retort to that would be: If we do take such action, and there is retribution abroad, next year you will have before you an entire panel of people who depend on export industry crying the same thing—and I don't use "crying" in the pejorative sense—as the people from Missouri.

Senator **DANFORTH**. Right.

Thank you all for your testimony and especially for your patience in waiting so long to testify. You have been very generous with your time. Thank you.

[Whereupon, at 6:32 p.m., the hearing was concluded.]

[The following prepared statements of Sherman Eng, Brian Lawlor, Paul Winslow, and John Warren Levin were submitted for the record:]

STATEMENT OF

SHERMAN ENG

I am Sherman Eng. I own a garment shop named Cam Fee Fashions in New York City. I employ about 200 workers. I am one of hundreds of small businessmen in Chinatown who have succeeded in building up a business in the garment industry. The garment industry is extremely important to the entire Chinatown community. If you walk through Chinatown you will see and understand why. Building after building contains garment shops. Each building has several floors, and on each floor is a garment shop. These are not large shops. They employ 10, 20, 50 workers. But there are so many of them that thousands of people depend on the garment industry for their jobs.

When the garment industry is in trouble, the entire community of Chinatown is in trouble, and because of the growing flood of imports, the garment industry is in very serious trouble, that is shy I support the Textile and Apparel Trade Enforcement Act, and ask you to support it. If we don't stop the imports soon, larege numbers of people in Chinatown will lose their jobs and the community will be devastated.

The garment industry is one of the economic foundations of Chinatown. The employers and workers directly involved in the industry are not the only ones who depend on it. The money that comes in as a result of the clothing we produce is spent in hundreds of small shops throughout the community. If the garment industry continues to decline, many shopkeepers will have to close their doors. They will not longer have enough customers to go on.

Chinatown is a community of small businesses. Shops survive because the entire family chips in and every penny is counted. I am sure you know that small businessmen have very narrow profit margins. Any change or disruption can ruin us.

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All that I am saying is that it would be a tragedy if the government allowed the imports to continue. The toll would be enormous.

I could lose my business and my workers would lose their jobs. The hundreds of other employees in the industry could lose everything they have. A huge percentage of the workers in Chinatown would be affected. Small grocery stores and produce dealers would be in trouble and might have to close. Thousands of families who have come to America and struggled to make a life for themselves would end up with nothing. And it would not even be their fault.

We cannot allow this to happen. I believe I speak for the entire Chinese community of New York City when I say you must pass the Textile and Apparel Trade Enforcement Act.

STATEMENT
OF
BRIAN LAWLOR, MAYOR
NEW BEDFORD, MASSACHUSETTS

My name is Brian Lawlor. I am the Mayor of New Bedford, Massachusetts. New Bedford has a population of approximately 100,000. Most of these people rely on the apparel and textile industries for survival. If they are not directly employed in one of these industries, some member of their family is. I commend the Committee for holding these hearings on apparel and textile imports, and I appreciate the opportunity to give you my view and explain how imports affect a community such as New Bedford.

I am not here to recite national statistics to you. I am here to explain the devastating impact that imports have on the community of New Bedford, Massachusetts and throughout New England.

The apparel and textile industries are most critical to the New Bedford economy. Today, the apparel industry alone represents 40% of manufacturing employment and 17% of all jobs in the New Bedford area. Anything that affects the garment and textile industries affects the city and residents of New Bedford.

The New England economy relies heavily on the apparel and textile industries. In 1950, there were 264,000 people employed by textile manufacturers in New England, compared to the 62,000 textile workers employed in New England today. The apparel industry employs an estimated 36,000 workers in the Commonwealth of Massachusetts, making it one of the largest traditional industries in the state. Clearly, any condition that threatens the future of these two industries endangers the well-being of the entire Commonwealth as well.

The decline of the apparel and textile jobs in the Commonwealth has been devastating since 1950, with apparel jobs declining 38% and textile jobs declining 83%. And, these figures don't really give you the entire picture. Along with the loss of these jobs, situation has been worsened by the decrease in the number of hours per week and the number of weeks per year worked by those still employed in these industries.

The recently-announced closing of the Berkshire Hathaway textile complex, which at its peak employed close to 5,000 workers and now employs approximately 800, is the end of this type of manufacture in the northeast United States. In spite of vast investments on the part of Berkshire Hathaway in an attempt to remain competitive, such efforts were for naught in light of the wage scales paid and subsidies provided to foreign producers.

According to the Massachusetts Commission on Mature Industries, the loss of jobs in the apparel and textile industries is directly related to imports. Major retailers in New England, as well as the rest of the country, have bypassed local contractors and mills. Instead, they have purchased materials and produced garments on foreign soil.

Apparel and textile workers in New England are not overpaid; they cannot be blamed for pricing themselves out of jobs. The average piece-rate worker in the apparel industry in Massachusetts makes about $5.75 per hour. The problem is with the low wage paid to foreign workers. U.S. workers should not have to compete with 16¢ per hour in China or $1.18 in Hong Kong.

You might be wondering why we can't retrain the workers in New Bedford who have been displaced because of the loss of jobs in these industries and bring other industry to New Bedford. The answer is not complicated. Garment and textile workers are often the most vulnerable and least marketable members of our society. Over 80% are women. Many are minority members. Many are new immigrants, especially the Portuguese in New Bedford and the Chinese in Boston. Many do not have high school diplomas. Most have no financial resources. They rely on a weekly paycheck for their survival.

Garment and textile workers are indeed skilled workers within their own industry, but these skills are not flexible. Hence, their employment opportunities are very restricted. Many of these workers have language problems which limit their employment opportunities in other fields.

Even if these workers are lucky, they may find a job in another labor intensive industry. But it is just a matter of time until these jobs are lost because of imports. In the 1960's and 70's when imports first became a major threat to American jobs, it was hoped that those workers displaced in the textile and apparel industries could be absorbed by other industries, including electronics, TV, auto, etc. Today, these jobs in these industries are declining because of imports.

This loss of jobs in these industries has had a tremendous affect on the New Bedford community, as well as the rest of Massachusetts and the nation. Because a significant number of New Bedford residents depend on the apparel and textile industries for all or a portion of their livelihood, the New Bedford City Government is, in turn, dependent upon these industries to provide a tax base for its support. The risk of failure by these industries is a serious threat to the entire

New Bedford community. The loss of jobs in these industries has meant a deteriorating tax base to the City of New Bedford.

This loss of jobs also means an increased need for services provided by the City, such as welfare. It also means increased usage of services such as unemployment compensation. It means increased pressures on the local and state governments at a time when their tax bases are eroding.

Obviously, anything that helps the apparel and textile industries will help New Bedford and the entire Commonwealth of Massachusetts. I urge you to do all you can to keep alive in THIS country the apparel and textile industries which have historically provided decent jobs to hard-working Americans.

STATEMENT
OF
PAUL WINSLOW

Gentlemen:

My name is Paul Winslow, of St. Louis, Missouri. I am the Regional Director for the Central States Region of the International Ladies' Garment Workers' Union, AFL-CIO. I want to thank the committee for the opportunity to describe the impact of imports on our organization and our industry.

The Central States Region provides services to members of the ILGWU through four District Councils, composed of 37 locals in Missouri, Southern Illinois, Southern Indiana, Western Kentucky, Arkansas, Oklahoma and Texas. As an indication of the adverse effect of imports on our organization, a year ago at this time we also represented workers in Kansas and Nebraska, and five years ago we represented additional workers in Minnesota, Iowa and Tennessee. Shops have closed and no others have opened to take their place. In 1964, when imports were a mere four percent (4%) of the American market the Central States Region represented 15,000 workers. Today, with imports taking up more than fifty percent (50%) of our market we represent 6,500 workers.

Our Union in Central States represented workers in both rural and urban areas. In our major urban areas of St. Louis, Missouri, Kansas City, Missouri and Minneapolis, Minnesota we have seen good paying apparel jobs disappear. In St. Louis our Union once represented 7,000 workers in 1964; today its 3,900. In Kansas City and the surrounding area the ILGWU once represented 4,900 workers; today it stands at 570. In Minneapolis, where we now do not have one single member we once represented 1,000 workers.

While the decline in urban membership is dramatic, the truly tragic impact of import spurred shop closings has been in rural areas. Our union has represented workers in Grand Saline and Andrews, Texas; Ziegler and Millstadt, Illinois; Piggott and Beebe, Arkansas; Paola and Ossawatomie, Kansas; Cynthiana and Huntingburg, Indiana; Osceola and Knoxville, Iowa; Hastings, Nebraska; Winona, Minnesota; Dresden, Tennessee; New Madrid and Frankfort, Missouri, and in 108 other communities.

In many communities apparel shops represented the only industrial employment available and union shops offered decent wages, decent treatment and the only health plan in town. Our members were the wives of struggling young farmers and small business people who tried to make a living off the farm economy.

Keeping the farm, sending the kids to college along with making ends meet brought many rural women into employment in small town garment shops. An effect of rising imports and the subsequent decline in apparel employment has been the closing of 125 shops in the Central States Region.

Much of the decline has occurred in the past ten years. In 1974 we still represented 15,000 workers and imports accounted for twenty-five percent (25%) of the American market.

The high interest rates of the early 1970's weakened the industry substantially. Apparel firms, even in the best of times, are marginally profitable. They are most successful when closely held and operated by hands-on entrepreneurs. The industry is labor intensive, price competitive, and always under capitalized. When interest rates went up only a few firms qualifed for prime rates. At the height of the interest crunch many firms borrowed money at twenty-four (24) to twenty-six percent (26%) interest just to stay in business. You see, the hope was that next season would be better and the loans could be paid off. But next season did not get better and the subsequent seasons were worse because imports were taking up more and more of the market. The end result in Central States Region was that from 1974 to 1984 imports rose from 25% to 50% of the market, our membership declined from 15,000 members to 6,500 members, and the number of shops fell from 175 to 50.

American workers cannot compete with the wages paid foreign workers. American workers cannot compete with subsidized foreign production. Our members, our industry need protection from unfair competition to save the apparel jobs that are left. We urge you on behalf of our 6,500 members and of the 7,000 to 9,000 workers who have been displaced to pass the Textile and Apparel Trade Enforcement Act of 1985.

Thank You.

Paul F. Winslow

Attached is a list of union shops that have closed.

FIRM	CITY	STATE	DATE CLOSED
ACAPULCO FASHIONS	EL PASO	TX	1983
CALVIN-KLEIN/CENTERFOLD	EL PASO	TX	1984
CORINITH STREET INC	IRVING	TX	1981
KILGORE MFG	KILGORE	TX	1982
LAREDO MFG	LOREDO	TX	1983
NARDIS	DALLAS	TX	1982
NARDIS	GRANDSALINE	TX	1981
SCOTTEX CORPORATION	CARROLTON	TX	1974
WENTWORTH MFG	ANDREWS	TX	1971
AMEDEE FROCKS	LOREDO	TX	1966
BROOKS MFG CO.	ENFIELD	IL	1990
INTUITIONS	ZIEGLER	IL	1980
MARTHA MANNING	MASCOUTAH	IL	1980
MODERN TEXTILES	CLAY CITY	IL	1978
MODERN TEXTILES	ALTAMOUNT	IL	1979
PICKNEYVILLE GARMENT	PINCKNEYVILLE	IL	1981
WAYNE CITY MFG	WAYNE CITY	IL	1984
MODE O' DAY	MT. VERNON	IL	1973
ARTEMIS, INC	MILLSTADT	IL	1975
PRINCESS PEGGY	VANDALIA	IL	1974
FORREST CITY FASHIONS	FORREST CITY	AR	1978
H.W. GOSSARD	PIGGOTT	AR	1981
LAWARANCE MFG	WLANUT RIDGE	AR	1982
SUBURBAN CASUALS	BEEBE	AR	1984
WESTPORT CASUALS	BATESVILLE	AR	1983
CLIMATIC of CLINTON	CLINTON	AR	1970
VILLAGER, INC	LITTLE ROCK	AR	1973
KELLWOOD	LITTLE ROCK	AR	1983
BRAEMOOR GARMENT*	PLEASANTON	KS	1985
COURTNEY APPAREL	KANSAS CITY	KS	1981
MODE O' DAY	OTTAWA	KS	1982
MODE O' DAY	OSAWATOMIS	KS	1973

FIRM	CITY	STATE	DATE CLOSED
GAY GIBSON	KANSAS CITY	KS	1977
GAY GIBSON	MERRIAM	KS	1977
GAY GIBSON	ATCHINSON	KS	1975
GAY GIBSON	HORTON	KS	1975
ANNSHIRE GARMENT	PITTSBURG	KS	1973
BRAEMOOR GARMENT*	PAOLA	KS	1970
HORTON GARMENT	HORTON	KS	1975
HORTON GARMENT	ATCHINSON	KS	1975
SMITH & COMPANY	PAOLA	KS	1978
LYNN MFG CO. (JANE COMPTON)	LEAVENWORTH	KS	1969
MODERN AMERICAN MFG.	LAWRENCE	KS	1970
MCDONALD ENTERPRISES	MERRIAM	KS	1977
ONAGA SPORTSWEAR	ONAGA	KS	1970
PRO-FIT INC.	PAOLA	KS	1982
SLIMAKER DRESS CO.	OSAWTOMIE	KS	1973
SLIMAKER DRESS CO.	HORTON	KS	1973
SHAWNEE MFG CO.	PAOLA	KS	1960
OSAGE MFG. CO	OSAGE	KS	1971
BROOKS MFG. CO.	EVANSVILLE	IN	1984
CYNTHIANA MFG	CYNTHIANA	IN	1984
H.W. GOSSARD	HUNTINGBURG	IN	1981
MODE O' DAY	HASTINGS	NE	1984
SNOWDEN INC	OSCEOLA	IA	1980
SNOWDEN INC	KNOXVILLE	IA	1980
DAJ INC	MINNEAPOLIS	MN	1980
KATHRYN CONOVER	MINNEAPOLIS	MN	1984
JEAN LANG, INC	MINNEAPOLIS	MN	1978
JULLETTE FASHIONS	MINNEAPOLIS	MN	1976
SANFORD INC.	MINNEAPOLIS	MN	1975
SWEARIGEN MFG.	WINOWNA	MN	1973

CLOSED SHOPS IN MISSOURI

Name of Firm	Number of Employees	Date Closed	Location
Ann Groesch	15	1984	St. Louis, MO.
Alfred Werber		1978	New Madrid, MO.
Alfred Werber	85	1983	St. James, MO
Alfred Werber	100	1983	St. Louis, MO.
Brand & Puritz	250	1980	Kansas City, MO.
Barad & Co.	81	1985	Troy, MO.
Courtney Apparel	28	1979	Hayti, MO.
Fox Mfg.	55	1980	Kansas City, MO.
Garden City Apparel	33	1982	Garden City, MO
General Sportswear	77	1981	St. Louis, MO.
H. Daust Mfg.		1979	St. Louis, MO.
H.W. Gossard	165	1981	Malden, MO
H.W. Gossard	165	1981	Poplar Bluff, MO.
H.W. Gossard	75	1981	Troy, MO.
Krest Originals	40	1978	Kansas City, MO.
Master Pleating		1984	St. Louis, MO.
Mendels Dresses	200	1983	Kansas City, MO.
Missouri Fashions		1979	St. Louis, MO.
Modern Textiles		1979	Clarksville, MO.
Modern Textiles		1978	Frankford, MO.
Modern Textiles			Maryland Heights, MO.
Nadine Formals		1979	St. Louis, MO.
Nelly Don	250		Kansas City, MO.
Nileyn		1984	St. James, MO.
Oldani Enterprises		1978	New Madrid, MO.
Ottenheimer & Co.	65	1979	Warrenburg, MO.
Phil Jacobs	47	1982	Kansas City, MO.
Robinson Mfg.	40	1980	Kansas City, MO.
Rosewin	92	1983	Kansas City, MO.
Sew Rite		1980	Clarksville, MO.
Stern Slegman Prins	350	1980	Kansas City, MO.
Superior Dress		1979	St. Louis, MO.
Vandalia Garment		1981	Vandalia, MO.
Warrenton Mfg. Co.		1977	Elsberry, MO.
Wonder Maid	8	1983	St. Louis, MO.
Vic - Gene	25	1970	Kansas City, MO.
Jane Compton	75	1969	Kansas City, MO.
Mafair Mfg. Co.	125	1969	Kansas City, MO.
Jane Shoulder Pad Co.	40	1969	Kansas City, MO.
Mc Fall's Inc.	40	1968	Kansas City, MO.
P.A.M. Inc.	125	1973	Kansas City, MO.

Name Of Firm	Number of Employees	Date Closed	Location
Briny Marlin Inc.	75	1980	Kansas City, MO.
Gay Gibson Inc.	250	1977	Kansas City, MO.
Louis Walter	200	1977	Kansas City, MO.
Patches Garment Co.	150	1977	Kansas City, MO.
Travables Inc.	65	1980	Kansas City, MO.
Youthcraft Coat & Suit (was manufacturer Employed now jobber employed - 25 workers)	300	1983	Kansas City, MO.
Maurice Coat & Suit	100	1979	Kansas City, MO.
Phillips Fashions	50	1976	Kansas City, MO.
Roberts Fashions	45	1981	Kansas City, MO.
Nelly Don Inc.	250	1977	Kansas City, MO.
Nelly Don	150	1973	St. Joseph, MO.
Nelly Don (Now Junior House - Plant with 118 Workers)	200	1978	Nevada, MO.
Clinton Mfg. Co. (Contractor for Phil Jacobs)	63	1971	Clinton, MO.
Lafayette Sportswear		1977	Odessa, MO.
Slimaker Dress Co.	100	1970's	Kansas City, MO.
Linda Lane,	250	1970's	Excelsior Springs, mO.
Country Set		1977	St. Louis, MO.
R. Lowenbaum Mfg.	200	1974	Cape Girardeau, MO
R. Lowenbaum Mfg.		1970's	St. Louis. MO.

STATEMENT
OF
JOHN WARREN LEVIN

My name is John Warren Levin. I reside in Spring Valley, Rockland County, New York.

I am President of New City Sportswear Co., Inc. in Haverstraw, New York. New City Sportswear was a manufacturer of knitted sweaters and tops; at one time employing as many as 200 people in a Village of 7000. Product was nationally distributed to the retail trade.

After more than 45 years of continous business activity the firm was forced to cease operations. The socio-economic displacement to workers, community and principal has been disasterous.

Of the employees of the firm approximately 70% came from minority groups; mostly Hispanic and female. These were people with good manual skills, language barriers and lower educational levels. In labor intensive industries such as knitwear they could become productive members of the community using their existing skills and manual dexterity. It was for many a first step on the economic ladder to the security of earned income, economic independence, a piece of the action and their share of the American Dream. Textile mills, such as New City Sportswear, have for years been a major part of that upward mobility afforded by the American economy to the thousands of diverse groups that came to these shores.

Today approximately 70% of the sweaters sold at retail in this Nation come from offshore. As this percentage has grown the domestic industry has correspondingly shrunk. The differential in wage rates between the United States and the Far East makes it impossible to compete. New City Sportswear Co., Inc. as a manufacturer and vendor of goods was no longer competitive in this market place. The prices, concessions and inducements offered by offshore manufacturers, particularly from the Far East could not be met by this domestic producer.

Certainly wage rates, labor standards workplace rules imposed on us by our Society in the interest of the public good effectively raise our productive costs beyond any competitive levels in an international trade situation where such social welfare goals are all but ignored and subsistance levels exist that are totally unacceptable to us.

Knowing the severity of market conditions and hoping that a modernization would improve our competitive position through increased productivity we first sought help through the Department of Commerce Trade Adjustment Assistance Program in 1978. We were rejected because by 1980 our business had been deemed as having improved to the point that such aid was not necessary. Nothing was farther from the truth because that minor recovery was due to other external market conditions, and the basic reasons for assistance being needed still existed. We again sought aid through this program in July 1982, and were certified as eligible to apply for such assistance in October 1982 by the Department of Commerce. Various business complications such as stockholder withdrawals delayed the submission of the recovery plan until August 1983.

The completed application for financial assistance was finally submitted April of 1984. In the interim at the end of 1983 and beginning of 1984 I lent the Firm an additional $200,000 and subordinated same so as to supply necessary working capital. Federal Funds were finally offered in February 1985. By that time capital was so severly depleted and outstanding debt so great that we were no longer economically viable as a firm. To have added additional debt would have been suicidal and our situation was such that trade credit would no longer be extended. We were past due on Bank obligations and these creditors were rightfully becoming impatient. The decision to discontinue operations and liquidate assets to meet existing obligations was therefore made.

We exhausted ourselves in waiting for a program that would enable us to modernize. Reality was that regardless we could no longer compete in the market place as a domestic producer.

The planned modernization would not have helped and would have been in retrospect a waste of capital. The same equipment we would have purchased is available to the rest of the world. Given the wage differential that exists; no more than 20% of our existing average wage and in most cases far less, we would still remain uncompetitive.

We know approximately 70% of the sweaters sold at retail come from offshore. The primary reason for this is not style or quality but rather the higher gross margins given to our retailers by these "low price" imports. The domestic producer therefore becomes an unfavorable source of supply. The average gross mark-up afforded the retailer by Far Eastern offshore vendors is 75%. Domestically produced sweaters only give the retailer a keystone or 50%.

This lower cost of import is not necessarily reflected in lower costs to the consumer. In reality the explosion in imported goods reflects the higher gross margins afforded to the retailer.

There is no way the domestic producer can compete with that situation.

We have imposed on ourselves certain minimum standards. We resultingly have enjoyed a standard of living envied by most of the world. Our competition is mostly without such inhibitions. They are not more "efficient" they just work for less. Retraining our labor force will not be the panacea to overcome this overwhelming wage differential. This is evident by the jobs permanently lost not just in textiles but steel, autos, communications and "high technology" sectors as well.

Are we to trade our standard of living for that of the less developed nations so that we can become competitive? I think that is the real question before this august Representative body.

I cannot envision a full employment society engaged in "the production of Fish 'n Chips and Micro Chips"; and even in that we have become uncompetitive in the latter.

Free trade exists only in theory and the United States is the freest market in the world. Similar access has not been granted to us. At one time I could and did export sweaters to Canada. The subsequent rise in the U.S. dollar made me uncompetitive.

Given the present deficit, real interest rates, and wage differentials we cannot compete in the market place without some help from our Government. Further we shall become even less competitive. We can compete on a level playing field. We need your assistance to overcome the inequities.

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Aide-Memoire
on
Thai-US Trade and Economic Relations

Thailand is a market-oriented economy that is fully integrated to the world economic system. We share the US conviction that an open world trade system plays a crucial role in advancing global economic interests and world prosperity and should therefore be maintained and preserved. In this regard, Thailand, along with her ASEAN partners have repeatedly voiced deep concern over the rising tide of protectionism which has eroded the open world trade system and welcome an early preparation for the launching of the New Round of Multilateral Trade Negotiations. Thailand fears that the recent surge of protectionism, from the US as well as other countries will undermine the common efforts to liberalize world trade and reverse the momentum that had recently been gained for the launching of the New Round.

Thailand wishes to also express our distress and concern that this rise in protectionism in certain sectors in the US if not now strongly resisted, will seriously undermine the Thai economy and be counter-productive to the bilateral economic relations between Thailand and the United States. Thailand wishes to further point out that

relations ...

relations between Thailand and the United States are deep-rooted and multi-dimensional and that economic relations from an integral part of this totality. A set-back on the economic front would deal a serious blow not only to the political stability and security of this nation but would, because Thailand is a front-line state, also undermine the stability of this region, at the detriment of both our countries' long-term security interests.

1. Thai-US Trade

Two-way trade between Thailand and the United States is a major component of bilateral economic relations. Trade has been growing satisfactorily with Thai imports from the US rising steadily to reach US$ 1.39 billion in 1984 and while exports had grown slowly between 1980-1983 (5 per cent on an annual basis), they have recovered in 1984 to reach US$ 1.28 billion.

It should be pointed out while the US is an important export market and source of imports for Thailand, the opposite is not true. Thai trade with the US is negligible, in relative terms, from the US point of view. In 1984, US exports to Thailand was only 0.5 per cent of total US exports while Thai products sold to the US account for 0.4 per cent of total US imports. These figures suggest that the solution to the US's trade deficit cannot be found with Thailand. It will instead reverse and hinder the steady expansion of trade between our two countries that has been so far achieved as well as further trade development in an open environment.

2. Textile

1. Thailand is seriously concerned over the proposed Textile and Apparel Trade Enforcement Act of 1985 now pending before the US Congress.

2. The ultimate purpose of this bill is to roll back imports of textile and apparel into the US by a substantial percentage so as to allow the US textile and apparel industries to regain profits and to arrest the rising trend of unemployment in this industrial sector.

3. Thailand believes that the assumptions behind the rationale for this bill are false.

4. Far from being overwhelmed by imports, investments and profits in this sector in the US reached a record level in 1984, representing a 20 per cent increase over 1983. But for increasing use of labour saving machinery, employment would have also shown similar increases. While 1984 saw also an increase in imports, partly reflecting increased domestic expenditure and partly because of the strength of the US currency, it has in no way substituted for domestic products, which continue to account for the greater share of the US market.

5. At the same time, the practical result of the Bill would impose a disproportionately large burden only on small and medium suppliers which together would not significantly contribute to the reduction in textiles imports into the US. The disproportionate burden on some countries in comparison with their market shares is illustrated in the following table.

country	percentage estimated cutback	market share in 1984
Thailand	64.4	1.84
Indonesia	80.7	1.54
Hong Kong	17.0	16.24
China	59.1	7.54
Pakistan	41.2	1.19
India	22.2	2.66
Korea	35.1	12.71
Singapore	2.6	2.04
Philippines	21.2	2.55
EC countries	-	10.90
Japan	19.9	6.86

6. Equally false is the claim that total imports should not exceed the level of growth of 6 per cent provided for the Multifibre Arrangement. This claim ignores the fact that the 6 per cent rate of growth is required only as a minimum in the case of products proven to have caused market disruption; the other products continue to be subjected to the market mechanism.

7. In the multilateral context, the bill contradicts the most important provision of the GATT since it discriminates among supplying countries by its exclusion of the member countries of the EEC, Canada and Mexico. At the same time, it ignores and negates the current US commitments to the Multifibre Arrangement and calls into question the worth of all commitments by a major economic power.

8. Furthermore, the bill would induce other major importing developed countries to follow suit to protect their own markets from textile and apparel diverted for the US market.

9. On a ...

9. On a bilateral basis, the bill would violate bilateral agreements that have been entered into by the US with all exporting developing countries, which provide for a mutually agreed procedure and solution of market disruption. In the case of Thailand, exports of Thai textile and apparel to the US has been subjected to control and limitations since 1971 and the coverage has widened from one item to 26 items currently.

10. The immediate effect of the passage of this bill on Thailand would be a drastic cut in income, foreign exchange earnings and employment of well over 600,000 persons or a quarter of the total industrial work force. Total exports by the US would be reduced by 15 per cent, thus further widening the trade dificit with the US.

11. The loss of income and capital generated by this drastic cut would invariably result in the reduction of imports into Thailand of the raw materials for this sector including cotton from the US. Imports for other industries and consumption would also be curtailed.

12. Thailand, therefore, urges the US Congress to reject this bill and to consider the alternative arrangement based on a multilateral approach, which has always had the support of and been championed by the US. Negotiation on the future of the Multifibre Arrangement has already begun and, with the exception of a few countries, there was a general agreement that although the Multifibre Arrangement has fallen short of its objective of ensuring the orderly and equitable development of trade in textiles while avoiding disruptive effects in individual markets and production in both importing and exporting countries, the arrangement has been useful.

13. Thailand ...

13. Thailand fully supports the extension of the Multifibre Arrangement and will work for a multilateral solution to the serious difficulties facing both the developing and the developed countries.

3. Canned Tuna

The recent indication that there is a move to substantially increase a tariff on imported canned tuna, whether in water or in brine, has caused much concern in Thailand. The move is one of several attempts which have been made in various forms to restrict or even eliminate the importation of canned tuna from Thailand and other countries. Last year, proposals were made to increase the import tariff to the rate of 35 per cent from the current 6 per cent (imported within the quantitative limit) and 12.5 per cent (for those imported in excess of the limit). These proposals came after the decision of the International Trade Commission that imports of canned tuna did not cause injury to the US canned tuna industry.

The fact that the proposals failed to win Congressional approval is a clear testimony of the US commitment to encourage a healthy international trading environment and development and has been welcomed by all exporting countries in the Third World. The renewed effort will certainly not be in the interest of the US and the trading community at large.

4. CVD ...

4. CVD Investigations Against Thai Manufactured Exports

Thailand's economic growth in the past years owed much to the strength of the agricultural sector and diversified industrial development. The fast expansion in trade has played an important role in stimulating the economy and the means to finance imports of capital and consumption goods. Uncertainty in trade unavoidably disrupts trade and injures incomes and employment. Thailand has recently experienced a series of allegations and investigations on our exports to the US. Two of our important exports, textiles and canned tuna, are examples of such cases. Investigation is now pending on our export of circular welded carbon steel pipes and tubes which accounted for less than 0.5 per cent of total US import in 1984. The Thai industries concerned feel that Thailand should not be made to bear an undue burden of US domestic monetary and fiscal adjustment.

5. Footwear

The recent recommendation of the International Trade Commission to the Administration to impose a five-year global quota on imports of non-rubber shoes into the US, if approved, will seriously affect Thailand and many small exporting countries with less than 1% of total US imports. While recognizing the ITC's determination to protect domestic industries and the concern of the US Congress over the national economy, the proposed remedial action may not be in the long term interest of the US, generate misallocation of resources and price distortions in the US market and effectively discourage the growth of independent producers in small exporting countries.

6. Bonus Incentive Commodity Export Programmes

Thailand, which relies heavily on agricultural exports as a main source of foreign exchange earnings, is gravely concerned over the US commodity subsidy programmes such as the Bonus Incentive Commodity Export Programmes (BICEPS). We realize the BICEPS is aimed at regaining US markets lost to EC subsidized exports. We are nonetheless concerned that the original objective may be overlooked and the scheme extended to affect other markets and some of our key exports as well as the possibility that the Programme may become a permanent feature similar to the present disposal of grain stock through international bidding by Commodity Credit Corporation (CCC).

Thailand therefore wishes to seek US assurances that the scheme will not apply beyond those US markets which have been lost to the EC subsidized exports. We would wish to be informed of the direction of the application of the said Programmes and request that prior consultation be held whenever Thailand's market may be threatened or affected.

Furthermore, Thailand is consistently concerned over the adverse impact on world trade in agricultural products of various US commodity export promotion programmes either in accordance with the "Public Law 480", the "International Development and Food Assistance Act of 1975" or the "Payment-In-Kind". We view these agricultural export subsidy policies as unfair trade practices in the same manner that the US has imposed countervailing duties on our manufactured products. We wish to see this imbalance redressed during the new round of multilateral trade negotiations.

7. Sugar

Thailand's sugar industry is heavily dependent on the world market. About 1.4-2.7 million tons or nearly 70 per cent of Thai sugar production are exported each year. Unfortunately, world sugar prices have been declining steadily and currently remains at a very low level. Thai cane farmers numbering about 200,000 families have been compelled to sell their canes at prices which are greatly below the cost of production for the past 4 years. Barring natural calamities or other acts of God which bring about high world prices, and with no outside help, the sugar industry in Thailand is certain to face immediate disaster.

The present situation has been aggravated by the US imposition of quotas for sugar in accordance with the Proclamation of the Import Quota Programme since May 1982. Thailand's quota was reduced from a peak of 292,000 short tons in 1982 to 39,200 short tons in 1983 and 42,588 short tons in 1984. Thailand fails to understand the rationale behind such a sharp reduction and has continuously requested bigger quota allocation. But the response from the US has been that to increase Thailand's quota would upset the formula used for global sugar allocation.

This attitude of finality taken by the US towards a friend like Thailand is indeed discouraging. Thailand, therefore, would like to request the US once again to seriously consider the possibility of reviewing the formulation used and introducing a more equitable and realistic base period for global quota allocations. Consequently, the quota allocated to Thailand will better reflect both its existing potential and its past performances prior to the May 1982 Proclamation. By so doing, the livelihood of approximately 200,000 Thai families of cane growers may be uplifted from their present dire state.

8. GSP

Thailand would like to express several reservations regarding the renewal of the US GSP scheme. First, the new scheme is more restrictive than the previous one, for example, a total exclusion of leather products. Second, the GSP now demands reciprocity from beneficiaries which is unprecedented and contrary to the fundamental principle of the GSP which is designed as an instrument to assist industrialization efforts by developing countries. Certain reciprocity conditions such as the requirement for the protection of worker rights is highly questionable. Third, the review process currently being undertaken have imposed greater administrative burden in requiring more information in the processing of GSP requests. This would increase administrative costs and reduce the rate of GSP utilization.

Thailand therefore requests that the new GSP scheme be administered in a flexible manner consistent with the developmental goals and objectives of beneficiary countries.

สหพันธ์อุตสาหกรรมสิ่งทอแห่งประเทศไทย
THE NATIONAL FEDERATION OF THAI TEXTILE INDUSTRIES
454 – 460 ถนนสุขุมวิท (ใกล้โรงภาพยนตร์วอชิงตัน) แขวงพระโขนง กรุงเทพฯ 11 โทร: 3929056 เทเล็กซ์: 87269 TIOTEXC TH
454 – 460 Sukhumvit Road (near Washington Theatre) Bangkok 11 Thailand Tel 3929056 Telex 87269 TIOTEXC TH

AIDE-MEMOIRE
on the Proposed Legislation in U.S. Congress The Textile and Apparel Trade Enforcement Act of 1985

While we appreciate the serious problem the U.S. has because of its large deficit in international trade, mainly with Japan and other developed countries, we are concerned that efforts to deal with this problem are not being directed at the real sources of the problem, but will result in broad protectionist measures which would adversely affect countries not contributing to these difficulties, including Thailand.

In particular, we are concerned that measures being contemplated by the U.S. Congress and the U.S. Government may further restrict some imports from Thailand when in fact those imports are already restricted or unrelated to the underlying trade deficit problems or problems experienced by specific industries.

1. The Textile and Apparel Trade Enforcement Act of 1985 pending in Congress would force a reduction in the already modest levels of Thai exports of these products to the U.S., despite the fact that the level of Thai exports is too small to have any significant impact on the U.S. industry. Forcing a reduction in Thai exports when the source of any problem is the major suppliers such as the 'Big-Fives' (constitute more than 65 percent of total imports) would ignore the facts of the matter and would be unfair.

สมาคมอุตสาหกรรมสิ่งทอไทย
สมาคมอุตสาหกรรมผลิตเส้นใยสังเคราะห์
สมาคมอุตสาหกรรมผลิตภัณฑ์เครื่องนุ่งห่มไทย
สมาคมอุตสาหกรรมทอผ้าไทย
สมาคมไหมไทย

The Thai Textile Manufacturing Association
The Thai Synthetic Fiber Manufacturers' Association
The Thai Garment Manufacturers Association
The Thai Weaving Industry Association
The Thai Silk Association

The following charts summarize the twenty-two largest exporters of textiles to the U.S. The charts includes 1983 and 1984 figures, both in million U.S. dollars and million square yards equivalent:

Country	1984 US$ Mil.	1984 %	1983 US$ Mil.	1983 %
Taiwan	2,440.810	16.61	1,984.123	18.12
Hong Kong	2,390.588	16.24	2,051.437	18.74
Korea	1,872.130	12.71	1,514.561	13.83
China	1,110.340	7.54	923.202	8.43
Japan	1,009.498	6.86	810.960	7.41
Italy	736.014	5.00	374.216	3.42
India	391.997	2.66	291.784	2.67
Philippines	375.170	2.55	284.349	2.60
Singapore	300.674	2.04	200.589	1.83
United Kingdom	270.244	1.84	174.966	1.60
Mexico	264.739	1.80	178.688	1.63
Thailand	263.793	1.89	151.796	1.38
France	243.290	1.65	159.388	1.46
Indonesia	226.224	1.54	86.680	0.79
Sri Lanka	205.173	1.40	126.508	1.16
Brazil	182.603	1.24	87.325	0.80
Dominican Republic	176.446	1.20	139.452	1.27
Germany	174.070	1.18	104.459	0.80
Pakistan	176.232	1.19	118.719	0.95
Macao	174.403	1.19	129.943	1.19
Canada	167.307	1.14	116.521	1.06
Malaysia	156.883	1.06	87.400	0.79
Total Top 22	13,469.511	91.52	9,975.548	91.11
Total EC	1,604.152	10.90	919.985	8.40
Total ASEAN	1,322.749	8.99	810.817	7.41
Total CBI	428.794	2.91	332.000	3.03
Total Overall	14,718.072	100.00	10,948.404	100.00

Country	1984 (M.SYE)	1984 (%)	1983 (M.SYE)	1983 (%)
Taiwan	1,578.113	15.55	1,402.139	18.20
Hong Kong	1,048.391	10.33	964.711	12.52
Korea	1,165.354	11.48	1,008.842	13.09
China	990.161	9.75	794.020	10.30
Japan	737.406	7.26	669.044	8.68
Italy	506.458	4.99	276.977	3.59
India	253.109	2.49	173.424	2.25
Philippines	241.661	2.38	191.330	2.48
Singapore	139.996	1.38	103.108	1.34
United Kingdom	139.889	1.38	90.279	1.17
Mexico	277.002	2.72	189.117	2.45
Thailand	211.326	2.08	121.775	1.58
France	103.253	1.01	67.439	0.87
Indonesia	268.042	2.64	84.155	1.09
Sri Lanka	115.692	1.14	67.413	0.84
Brazil	194.982	1.92	132.886	1.72
Dominican Republic	101.979	1.00	82.469	1.07
Germany	288.646	2.84	165.880	2.15
Pakistan	304.736	3.00	218.126	2.83
Macao	62.663	0.62	51.085	0.66
Canada	299.611	2.95	161.897	2.10
Malaysia	93.115	0.92	49.065	0.64
Total 22	9,214.700	90.77	7,114.246	92.32
Total EC	1,131.541	11.15	662.856	8.60
Total ASEAN	954.147	9.40	549.434	7.13
Total CBI	256.861	2.53	200.024	2.60
Total Overall	10,151.446	100.00	7,706.014	100.00

2. This Bill makes little sense in terms of trade policy as it penalizes Thailand for an import problem which it is not causing. Minor suppliers such as Thailand are forced into reductions below 1984 levels (64.4 percent), much greater than principal suppliers (e.g. Taiwan 48.0, Hong Kong 17.0, Korea 35.1, China 59.1). Furthermore, there is no apparent rationale for providing growth to some countries (Mexico, Colombia, Peru, Chile, and even South Africa). While Thailand is forced into a reduction, countries which are primarily responsible for the adverse U.S. balance of trade (e.g. Korea and Japan) receive much more favorable treatment than Thailand. In short, whether the logic of the proposal is to protect U.S. industry or to address severe balance of trade problems, the arbitrary nature of the proposed legislation imposes a disproportionate burden on Thailand, a relatively minor player in the textile trade and in the overall U.S. balance of trade picture. To summarize, such a discriminatory and arbitrary approach is not well understood by us and it will definitely have a severe adverse impact on Thailand's largest export manufacturing sector.

Thailand wonders whether its emerging textile and apparel export industries will be allowed a place in the U.S. market or whether they will be restricted because other countries which began exporting these products before Thailand have disrupted the market. The appropriate U.S. response is to deal with the imports that in fact are causing the problems (i.e. the major suppliers) not to restrict the newcomers and small suppliers.

Additional consideration should be made of the role of individual countries in contributing to the U.S. balance of trade deficit. Restrictions of these exports may impair Thai imports from the U.S., thereby failing to resolve the underlying trade deficit problem. For example, Thailand imports about 5 percent of U.S. total cotton exports, mainly from Texas and California, which is equivalent to about 50 percent of our cotton imports.

3. The Jenkins Bill is inconsistent with the MFA in three important respects. First, Article III, section 1 provides:

> Unless they are justified under the provisions of the GATT (including its Annexes and Protocols) no new restrictions on trade in textile products shall be introduced by participating countries nor shall existing restrictions be intensified, unless such action is justified under the provisions of this Article.

Section 1 refers to the Article III provisions authorizing the use of "calls" to deal with cases of market disruption. Article III does not contemplate the imposition of a global system of restrictive quotas. Moreover, Article III and the call mechanisms are based on bilateral consultations, not the unilateral imposition of quotas. The primary purpose of the MFA was to reduce the use of unilateral trade restrictions.

Second, Article VI, Section 1 provides in part that:

> Recognizing the obligations of the participating countries to pay special attention to the needs of the developing countries, it shall be considered appropriate and consistent with equity obligations for those importing countries which apply restrictions under this Arrangement affecting the trade of developing countries to provide more favorable terms with regard to such restrictions, including elements such as base level and growth rates, than for other countries.

While this provision urges preferential treatment for developing countries, the Jenkins Bill exempts the EC and Canada from its coverage. The Bill thus gives preferences to precisely the countries — the developed countries - who not need the preferences.

Third, Article XII specifically limits the coverage of the MFA to cotton, wool, and man-made fibers. The Jenkins Bill seeks to impose quotas on imports of silk, ramie, and linen. This extension is a clear violation of an express provision of the MFA.

The Jenkins Bill also violates bilateral agreements in effect under the MFA. The alteration of base levels, changes in growth provisions, and unilateral action by the U.S. in contravention of the terms of existing bilaterals constitute violations of negotiated bilateral commitments entered into by the U.S.

In addition to these particular points, we would like to stress the overriding spirit of the MFA: that restrictions on trade in textiles should be minimized; and where restrictions are unavoidable, they should be the result of mutually agreeable bilateral negotiations. In this connection, we would like to stress that Thailand has cooperated with the U.S. Government in calls under the present bilateral agreement. Thailand has honored its part of the MFA commitment, and asks only that the United States no do the same.

4. The single most important principle in the GATT is the notion of "most-favored-nation" status. This notion — that all countries should be treated similarly in international trade — permeates the entire GATT, and appears specifically in Article XIII dealing with quantitative restraints. Section 1 of Article XIII provides that:

> No prohibition or restriction shall be applied by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation of any product destined for the territory of any other contracting party, unless the importation of the like product of all third countries or the exportation of the like product of all third countries is similarly prohibited or restricted.

To the extent the Jenkins Bill applies to some countries but not to all countries, it will violate this provision of the GATT.

The following chart reveals the widely different effects the Jenkins Bill will have on various suppliers:

TEXTILE LIMITS IN 1985
COMPARED TO 1984 GENERAL IMPORTS

Country	% Change
Argentina	+20.1
Australia	+14.5
Austria	+14.7
Barbados	+42.3
Belize	+15.0
Bangladesh	+ 2.8
Brazil	-80.5
Bulgaria	+15.0
Costa Rico	+10.6
Chile	+230.5
China	-59.1
Taiwan	-48.0

Colombia	+ 8.8
Czechoslovakia	+15.0
Dominican Republic	+ 9.3
Ecuador	+312.5
Egypt	+14.0
French West Indies	+257.0
Finland	+15.0
German Rep. Demo.	+82.5
Greece	0
Guatemala	+15.0
Guyana	+94.4
Haiti	+11.7
Hong Kong	-17.0
Honduras	+ 9.1
Hungary	+10.2
Iceland	+13.2
India	-22.2
Indonesia	-80.7
Iran	+ 1.0
Israel	+ 5.0
Jamaica	+14.1
Japan	-19.9
Korea	-35.1
Leeward/Winward Islands	+10.7
Macao	+ 5.6
Malaysia	+ 6.5
Male	+15.0
Mauritius	+ 3.9
Mexico	+14.0
New Zealand	+14.4
Nepal	+ 1.0
Nicaragua	Infinite
Pakistan	-41.2
Panama	+ 1.0

Peru	+ 9.9
The Philippines	-21.2
Poland	+42.8
Portugal	+12.9
Romania	+ 8.8
South Africa	+14.0
Salvador	+17.1
Singapore	- 2.6
South Asia	+ 1.0
Spain	+14.8
Sri Lanka	+ 5.3
Switzerland	+21.7
Trust Pac Island	+ 1.0
Thailand	-54.4
Turkey	+ 7.9
Uruguay	+12.8
Yugoslavia	+ 9.2

5. The Bill may not be necessary because the United States already has in place a comprehensive system of import quotas. Approximately 80 percent of apparel imports into the United States are already under quotas. This existing system is consistent with the MFA, and should form the basis for any effort by the United States to control imports of textiles and apparel. Moreover, the percentage of total imports under quotas has been increasing over the past few years.

In addition to these quotas, the Administration has taken a number of actions to reduce the level of textile imports into the United States, inclduing:

1. new country of origin regulations
2. new phased entry regulations; and
3. stricter standards for enforcing calls

The figures on growth of total textiles imports are somewhat misleading. The fact that total textile imports are growing is not a sign that the present system of bilateral textile agreements under the MFA is not working. Much of this growth is non-MFA fibers, such as silk, ramie, and linen. These fibers are not produced to any substantial degree in the United States. These imports therefore do not compete with the domestic products. Further, we feel that remedy for such problem could be discussed in the coming negotiations of the MFA renewal within December of this year.

Moreover, much of the growth in imports from the Pacific Rim countries is merely the growth permitted under the MFA, but which had not been taken advantage of for several years. The fact that some countries did not take advantage of their permitted levels of growth in the past should not be a basis for punishing those countries.

The United States has an elaborate system of trade laws. If textile imports are unfairly traded (with unfairly low prices due either to government subsidization or companies selling below cost), countervailing duties and antidumping duties may be imposed to offset the price advantage. The domestic industry tried to stop textiles imports with a series of countervailing duty cases against small suppliers last fall, of which Thailand is one of them. Further, we would like to stress the following points:

(a) In general, the domestic industry was unsuccessful in proving substantial levels of subsidization; that is why it is now seeking legislative protection.

(b) In particular, the ASEAN countries had extremely low levels of subsidization:

	Textiles	Apparel
Thailand	Suspension	1.23%
Malaysia	negative	negative
Indonesia	accession	accession
Singapore	negative	negative
The Philippines	accession	accession

(c) The domestic industry cannot establish that it is being injured by reason of textile imports; if they could show injury, the industry could use section 201 of the Trade Act of 1974, which provides protection to domestic industries that are injured by fairly traded but injurious imports.

6. The real problem we feel is the increasing domestic demand and overvalued dollar. There is a consensus that the real source of the enormous United States trade deficit is the overvalued dollar which has rendered U.S. domestic production uncompetitive vis-a-vis the rest of the world.

7. The Bill will not help the domestic industry because instead of limiting total textile imports, it will merely shift imports from those countries covered by the Bill to those countries not similarly covered. Of the total growth in textiles imports for 1983 and 1984, a substantial portion was due to suppliers not covered by the Jenkins Bill, such as Canada, the EC, and Mexico. Once the Pacific Rim suppliers are covered by strict quotas, these suppliers who are not covered by the Bill would continue their growth at an even faster rate, as long as the

U.S. domestic production remains uncompetitive. Subsequently, not only that it will not retrieve the lost jobs, but erosion will also continue.

8. As you are well aware, the Jenkins Bill would cost the American consumers approximately $14 billion per year. The average price of clothing would increase substantially. Some estimates rage as low as others range as high as 50 percent.

9. The effect of the Bill on Thailand will be very devastating. The abrupt sharp reduction of 64.4 percent will jeopardize more than one-sixth of the 600,000 workers directly involved in the production. It will reduce the total textiles and apparel export earnings of Thailand by about one-fourth. The total textiles and apparel exports of Thailand in 1984 was just short of 20,000 million Bhat or about 10 percent of all of Thailand's exports.

10. The base year of 1980 used was rather arbitrarily, taking the lowest point of imports due to the weak dollar up to 1984 when the dollar peaked a difference of more than 30 percent in real value, basing on:

> 1 SDR = US$1.30 in 1980 as compared with US$0.987 in December 1984; or an increase of 31.8%

Now that the strength of the dollar is declining towards a more realistic level, we believe that imports will decline and that your trade deficit problems will diminish accordingly.

11. In the global context, the 'Jenkins Bill' would also be counter-productive to the expansion of world trade which is vitally needed for continued world prosperity. Forced reduction of the income of such a large number of countries, most of whose economics are market oriented, would reduce world trade and would certainly incite retaliation and counter-retaliation. Far from saving the U.S. textile industries, the Bill would introduce greater difficulties of world magnitude in an already difficult time.

12. The National Federation of Thai Textile Industries fully concurs with and supports the extension of the Multifiber Arrangement as the best alternative to unilateral approach. We therefore urge the U.S. as advocate to the principle of "Free and Fair Trade" to cooperate with other countries to find a solution on a multilateral basis that will be fair to all concerned.

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STATEMENT OF
PACIFIC BASIN GOVERNORS:

STATE OF HAWAII
TERRITORY OF AMERICAN SAMOA
TERRITORY OF GUAM
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

HEARING ON S. 680
TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
UNITED STATES SENATE

FOR THE
PACIFIC BASIN DEVELOPMENT COUNCIL

BY

REXFORD C. KOSACK
ATTORNEY GENERAL
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
SAIPAN, CM 96950

September 12, 1985

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

THIS STATEMENT IS SUBMITTED ON BEHALF OF GOVERNOR GEORGE R. ARIYOSHI OF THE STATE OF HAWAII, GOVERNOR A.P. LUTALI OF THE TERRITORY OF AMERICAN SAMOA, GOVERNOR RICARDO J. BORDALLO OF THE TERRITORY OF GUAM, AND GOVERNOR PEDRO P. TENORIO OF THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS IN RESPONSE TO THE COMMITTEE'S INVITATION FOR COMMENTS ON S.680, THE TEXTILE AND APPAREL TRADE ENFORCEMENT BILL. THERE ARE CURRENTLY APPAREL PRODUCERS IN HAWAII, GUAM, AND THE NORTHERN MARIANA ISLANDS.

OUR GOVERNMENTS ARE VERY CONCERNED THAT THIS BILL REFLECTS A SUBSTANTIAL CHANGE IN ATTITUDE OF THE UNITED STATES GOVERNMENT TOWARDS ITS TERRITORIES. SECTION 4(4) TREATS "AN INSULAR POSSESSION OF THE UNITED STATES" AS A "COUNTRY" FOR PURPOSES OF ENFORCING TEXTILE IMPORT RESTRICTIONS. WE STRONGLY BELIEVE THAT AMERICAN COMPANIES LOCATED IN AMERICAN TERRITORIES SHOULD BE TREATED AS DOMESTIC PRODUCERS.

I. AMERICAN INSULAR POSSESSIONS SHOULD BE EXEMPTED FROM THE DEFINITION OF FOREIGN COUNTRIES.

WE BELIEVE THAT CONGRESS IS AT THE CROSSROADS OF DEFINING A NEW RELATIONSHIP BETWEEN THE FEDERAL GOVERNMENT AND THE U.S. TERRITORIES. HISTORICALLY, CONGRESS HAS SOUGHT TO ALLEVIATE THE FINANCIAL DEPENDENCY OF THE TERRITORIES UPON THE FEDERAL BUDGET

BY PROVIDING INCENTIVES FOR ECONOMIC DEVELOPMENT IN THE TERRITORIES. THESE INCENTIVES HAVE BEEN NECESSARY TO ENCOURAGE PRODUCERS TO LOCATE ON REMOTE ISLANDS WITH FEW NATURAL RESOURCES AND A SMALL, UNTRAINED LOCAL LABOR FORCE.

HEADNOTE 3(A) OF THE TARIFF SCHEDULES OF THE UNITED STATES (TSUS) IS AN EXAMPLE OF ONE OF THESE INCENTIVE PROGRAMS. BASICALLY, IT PROVIDES FOR THE QUOTA-FREE AND DUTY-FREE ENTRY OF PRODUCTS PRODUCED IN THE INSULAR POSSESSIONS SO LONG AS THEY DO NOT CONTAIN FOREIGN MATERIALS TO THE VALUE OF MORE THAN 70% OF THEIR TOTAL VALUE (OR 50% OF THEIR TOTAL VALUE IN THE CASE OF GARMENTS). THE LEGISLATIVE HISTORY OF HEADNOTE 3(A) INDICATES THAT THE INTENT OF THE PROGRAM IS TO ENCOURAGE LIGHT INDUSTRY AND ASSEMBLY OPERATIONS IN THE TERRITORIES. THROUGH THE FEDERAL GOVERNMENT'S REPEATED EFFORTS TO RECRUIT INDUSTRY TO LOCATE IN THE TERRITORIES SEVERAL MANUFACTURERS HAVE INVESTED MILLIONS OF DOLLARS TO ESTABLISH GARMENT FACTORIES IN GUAM AND THE NORTHERN MARIANA ISLANDS.

WE FEEL THAT SUCH AN ECONOMIC POLICY IS IN THE BEST INTERESTS OF THE FEDERAL GOVERNMENT. AT A TIME WHEN CONGRESS IS STRUGGLING TO SLASH FEDERAL SPENDING, THE U.S. TERRITORIES STILL RECEIVE THE MAJORITY OF THEIR FUNDING FROM CONGRESS. A POLICY THAT ENCOURAGES PRODUCERS TO LOCATE IN THE TERRITORIES WILL BROADEN OUR REVENUE GENERATING BASE AND DECREASE OUR FINANCIAL

DEPENDENCE ON THE FEDERAL DOLLAR. ADDITIONALLY, TO THE EXTENT THAT THE PACIFIC TERRITORIES ARE OF STRATEGIC IMPORTANCE THEIR PEOPLE SHOULD NOT BE DISILLUSIONED ABOUT THEIR RELATIONSHIP WITH THE UNITED STATES BY LOSING EMPLOYMENT AND OFF-ISLAND INVESTMENT AS A RESULT OF THIS BILL.

THIS COMMITTEE SHOULD REMEMBER THAT THE PEOPLE OF THE TERRITORIES, WHILE LOCATED MANY MILES FROM WASHINGTON, D.C., ARE AMERICANS. THE PEOPLE OF GUAM ARE U.S. CITIZENS; THE PEOPLE OF AMERICAN SAMOA ARE U.S. NATIONALS AND, THE PEOPLE OF THE NORTHERN MARIANA ISLANDS ARE INTERIM U.S. CITIZENS. FOR MANY YEARS THESE PEOPLE HAVE BEEN TOLD THAT THEY ARE MEMBERS OF THE "AMERICAN FAMILY." WOULDN'T YOU THINK THAT, AT A MINIMUM, SUCH MEMBERSHIP WOULD ALLOW THE TERRITORIES TO TRADE WITH THEIR SISTER STATES WITHOUT RESTRICTION? TO THE TERRITORIES IT SEEMS AS THOUGH WE ARE MEMBERS OF THE AMERICAN FAMILY ONLY WHEN MEMBERSHIP EXACTS A HEAVY PRICE FROM US. BECAUSE THE NORTHERN MARIANAS IS A MEMBER, IT LOST ITS RIGHT TO CONTROL FISHING IN ITS ANCESTRAL WATERS TO THE STATE DEPARTMENT WHEN THE MAGNUSON ACT WAS EXTENDED TO THE CNMI, SOLELY IN THE INTERESTS OF UNIFORMITY. WHILE FOREIGN VESSELS PULL FISH FROM LOCAL WATERS WITHOUT RESTRICTION, NEIGHBORING PACIFIC GOVERNMENTS SELL THE RIGHT FOR MILLIONS OF DOLLARS EACH YEAR. BECAUSE AMERICAN SAMOA IS A MEMBER, IT WAS REQUIRED TO ADOPT A SYSTEM OF JURY TRIALS OVER ITS STRONG OBJECTION THAT IT WAS IN CONFLICT WITH THE SAMOAN CULTURE. BECAUSE GUAM IS A MEMBER, IT HAS

LOST MUCH OF ITS PRIME LAND TO THE UNITED STATES MILITARY, EVEN THOUGH IT IS NOT IN USE.

THE BASIC TRUTH IS THAT THIS BILL UNFAIRLY DISCRIMINATES BETWEEN THE CITIZENS OF THE TERRITORIES AND THE CITIZENS OF THE SOUTHEASTERN STATES. WHILE WE ARE CONCERNED ABOUT THE EFFECT IMPORTS HAVE HAD ON EMPLOYMENT IN STATESIDE FACTORIES, WE DO NOT BELIEVE IN ANY SENSE THE ANSWER COULD BE TO PUT AMERICANS OUT OF WORK IN THE TERRITORIES. EVEN FROM A PRAGMATIC SENSE, THE AMOUNT OF PRODUCTION IN THE TERRITORIES IS MINISCULE WHEN COMPARED TO ANY FOREIGN COUNTRY. AND, THE AMOUNT WILL ALWAYS REMAIN SMALL DUE TO A NUMBER OF FACTORS: THE LIMITED SIZE OF THE LOCAL WORK FORCE, THE UNDERDEVELOPED ISLAND INFRASTRUCTURE, AND DIFFICULTIES IN COMMUNICATION AND TRANSPORTATION.

II. THE FORMULA APPLIED TO THE TERRITORIES TREATS THEM WORSE THAN A FOREIGN COUNTRY.

THIS LEGISLATION WOULD ALL BUT DESTROY THE GARMENT INDUSTRY IN THE TERRITORIES -- A RESULT THAT THE MANDATED ROLLBACK IS UNLIKELY TO HAVE ON ANY FOREIGN COUNTRY. NO TERRITORY WOULD BE CLASSIFIED AS A "MAJOR EXPORTING COUNTRY". 1985 TEXTILE IMPORTS FOR ANY TERRITORY WOULD BE LIMITED TO THE 1984 LEVELS PLUS A GROWTH RATE OF 1% FOR IMPORT SENSITIVE ITEMS. THE TERRITORIES OF GUAM AND THE NORTHERN MARIANA ISLANDS PRODUCED WOOL, COTTON AND MAN MADE FIBER SWEATERS ONLY IN 1984. SO, THEY WOULD BE SUBJECT TO THE RULE FOR

IMPORT SENSITIVE ITEMS.

GUAM WOULD BE FROZEN AT ONLY 140,000 DOZEN SWEATERS; THE NORTHERN MARIANA ISLANDS AT A MERE 47,000 DOZEN SWEATERS. AMERICAN SAMOA, WHICH HAS NOT YET BEGUN TO PRODUCE SWEATERS, WOULD RECEIVE A QUOTA THAT IS A FRACTION OF THAT AMOUNT. THE UNWARRANTED RESULT OF SUCH ROLLBACKS IN AN INFANT INDUSTRY IS THAT THE COST OF ESTABLISHING A SMALL PRODUCTION FACILITY IS NOT JUSTIFIED BY THE SMALL QUANTITY OF GOODS THAT CAN BE PRODUCED YEARLY. THE BOTTOM LINE IS THAT THE PRESENT PRODUCERS IN THE TERRITORIES WILL BE FORCED TO CLOSE DOWN THEIR OPERATIONS.

WE STRONGLY BELIEVE THAT THE APPLICATION OF THIS FORMULA TO THE TERRITORIES IS UNFAIR. WE ARE APPALLED TO DISCOVER THAT THIS FORMULA IS BEING APPLIED TO AMERICAN TERRITORIES WHEN IT IS NOT BEING APPLIED TO SOME FOREIGN COUNTRIES, SPECIFICALLY CANADA AND THE MEMBER STATES OF THE EUROPEAN ECONOMIC COMMUNITY. IF CHARITY IS TO BEGIN AT HOME, THEN CERTAINLY IT IS THE TERRITORIES WHICH FIRST SHOULD BE EXEMPTED.

THIS SUBCOMMITTEE SHOULD RECOGNIZE THAT THE RESULT OF THE FORMULA IS THE ESTABLISHMENT OF A LOWER QUOTA FOR AMERICAN TERRITORIES THAN MOST FOREIGN COUNTRIES. IT IS INSULT ENOUGH TO TREAT AMERICAN TERRITORIES AS FOREIGN COUNTRIES AND PLACE THEIR PRODUCTS UNDER RESTRICTIONS. BUT, TO RESTRICT THEIR PRODUCTION MORE THAN THE PRODUCTION OF TRUE FOREIGNERS IS INTOLERABLE.

THE QUOTAS ESTABLISHED FOR FOREIGN COUNTRIES ARE A RESULT OF

BILATERAL AGREEMENTS AND NEGOTIATION. THE 1984 LEVELS OF MOST OF THE FOREIGN COUNTRIES WILL MATCH THEIR NEGOTIATED QUOTAS. WE WERE NEVER GIVEN THE OPPORTUNITY TO NEGOTIATE QUOTAS FOR THE TERRITORIES. OUR NEW QUOTAS AS A RESULT OF THIS LEGISLATION WILL REFLECT ONLY THE MINISCULE PRODUCTION OF THE FIRST YEAR OF PRODUCTION IN THE NORTHERN MARIANA ISLANDS AND A LITTLE OVER FIVE YEARS OF PRODUCTION IN GUAM.

WE HAVE NO NEGOTIATED QUOTAS BECAUSE THERE WAS NEVER ANY REASON TO REGULATE SUCH SMALL PRODUCERS. A COUNTRY IS CALLED FOR CONSULTATION WHEN ITS IMPORTS CAUSE MARKET DISRUPTION IN THE UNITED STATES. NO TERRITORY HAS EVER PRODUCED THAT MANY GARMENTS. THESE FACTS PRODUCE AN INTERESTING RESULT IN THE LEGISLATION. WHEN QUOTAS ARE NEGOTIATED THEY ESTABLISH A NUMBER HIGHER THAN THE THRESHOLD OF MARKET DISRUPTION. SO, THE 1984 LEVELS FOR FOREIGN COUNTRIES WITH QUOTAS WILL ALL BE IN EXCESS OF THAT LEVEL. HOWEVER, THE TERRITORIES WILL BE FROZEN AT A LEVEL NOWHERE NEAR THE POINT OF CONCERN. IF THE FOREIGN COUNTRIES ARE ALLOWED TO CROSS THIS THRESHOLD, ISN'T THIS FREEZE ON THE TERRITORIES PREMATURE AND THEREFORE DISCRIMINATORY? WE BELIEVE THE TERRITORIES SHOULD BE ALLOWED TO PRODUCE FREELY TO THE POINT OF MARKET DISRUPTION JUST AS FOREIGN COUNTRIES WERE PERMITTED TO PRODUCE. AND, AT THAT POINT, A QUOTA SHOULD BE NEGOTIATED FOR US. AT THE VERY LEAST, THE FORMULA FOR THE TERRITORIES SHOULD BE VARIED SO THAT THE QUOTA IS IN EXCESS OF MARKET DISRUPTION AND REPRESENTATIVE OF A LEVEL ESTABLISHED BY A

BILATERAL AGREEMENT.

III. IT IS UNFAIR TO APPLY A FORMULA TO THE TERRITORIES BASED ON 1984 PRODUCTION SINCE ACTION BY THE ADMINISTRATION THAT YEAR ALL BUT PERMANENTLY CLOSED THE INDUSTRY IN THE TERRITORIES.

DUE TO THE LOW LEVEL OF APPAREL IMPORTS FROM THE TERRITORIES, NO TERRITORY WOULD BE CLASSIFIED AS A "MAJOR EXPORTING COUNTRY". SO, THE 1985 TEXTILE IMPORTS FOR ANY TERRITORY WOULD BE LIMITED TO 1984 LEVELS PLUS A GROWTH RATE OF 1% FOR IMPORT SENSITIVE ITEMS AND 15% FOR OTHER ITEMS. BECAUSE 1984 WAS THE YEAR THE INTERIM REGULATIONS WERE INTRODUCED BY TREASURY, PRODUCTION ALL BUT CEASED MID YEAR IN THE TERRITORIES. AS A RESULT, THE QUOTAS, BASED ON ACTUAL PRODUCTION, WILL BE VERY LOW FOR THE TERRITORIES. IN 1984, ONLY GUAM AND THE NORTHERN MARIANAS PRODUCED GARMENTS AND THIS WAS LIMITED TO SIX CATEGORIES OF SWEATERS. ANY OTHER TYPE OF GARMENT FOR THOSE TERRITORIES AND ANY TYPE OF GARMENT FOR AMERICAN SAMOA WOULD BE SUBJECT TO THE FORMULA FOR MINIMUM QUANTITIES. IN THE END, ALL GARMENT PRODUCTION IN THE TERRITORIES WILL BE LIMITED TO A BARE MINIMUM. THE COST OF ESTABLISHING A PRODUCTION FACILITY IS NOT JUSTIFIED BY THE SMALL QUANTITY OF GOODS THAT CAN BE PRODUCED YEARLY. IN FACT, IT IS LIKELY THAT THE PRESENT PRODUCERS WILL BE FORCED TO CLOSED DOWN THEIR OPERATIONS.

THE BENEFIT OF LOCATING SUCH INDUSTRY IN THE TERRITORIES IS THAT THE HEAVY LABOR COMPONENT (KNITTING, FOR EXAMPLE) CAN BE DONE

ABROAD WHILE LESS LABOR-INTENSIVE PARTS OF THE PROCESS CAN BE DONE IN THE UNITED STATE TERRITORY AND THE ARTICLE WILL BE CONSIDERED PRODUCED IN THE UNITED STATES. (GUAM HAS THE FEDERAL MINIMUM WAGE LAW; THE CNMI HAS THE FAIR LABOR STANDARDS ACT BUT THEIR OWN MINIMUM WAGE LAW OF $2.15 PER HOUR TO SUIT THEIR DIFFERENT ECONOMY.)

CONGRESS SPECIFICALLY ENACTED HEADNOTE 3(A) TO ENCOURAGE LIGHT INDUSTRY AND ASSEMBLY OPERATORS TO LOCATE IN THE TERRITORIES. IN RECENT YEARS, CONGRESS HAS RECOMMENDED RETAINING THIS PROGRAM BECAUSE OF ITS CONTRIBUTION TO THE ECONOMIC WELL-BEING AND DEVELOPMENT OF THE TERRITORIES. IN GUAM, SIGALLO PAC HAS 400 EMPLOYEES. IN THE NORTHERN MARIANAS THERE ARE 391 EMPLOYEES, AN INVESTMENT OF 2.65 MILLION DOLLARS IN EQUIPMENT AND LONG-TERM LEASES FOR 91,000 SQUARE FEET.

IN 1984, PRESIDENT REAGAN ORDERED THE COMMITTEE FOR IMPLEMENTATION OF TEXTILE AGREEMENTS (CITA) TO DEVELOP A MEANS FOR PREVENTING THE CIRCUMVENTION OF BILATERAL TRADE AGREEMENTS. THE TREASURY DEPARTMENT WITHOUT WARNINGS PUBLISHED CITA'S RECOMMENDED REGULATIONS IN AUGUST OF 1984 FOR IMMEDIATE APPLICATION. TO THE COMPLETE SURPRISE OF THE TERRITORIES, THE REGULATIONS APPLIED TO INSULAR POSSESSIONS AS WELL AS FOREIGN COUNTRIES.

THE INTERIM REGULATIONS, WHICH HAVE SINCE BEEN FULLY ADOPTED, ESTABLISH A STRICTER COUNTRY OF ORIGIN RULE. IN BRIEF, THEY REQUIRE SUBSTANTIAL PROCESSING IN A COUNTRY OF ORIGIN. SPECIFICALLY

EXCLUDED AS SUBSTANTIAL PROCESSING ARE COMBINING AND ASSEMBLY OPERATIONS, THE BREAD AND BUTTER OF THE TERRITORIES. OUR MANUFACTURERS HAD RELIED ON CUSTOMS SERVICE RULINGS THAT LINKING OPERATIONS USED IN THE TERRITORIES QUALIFIED THESE PRODUCTS AS ORIGINATING IN THE TERRITORIES. NOW THOSE OPERATIONS WOULD NO LONGER BE ENOUGH. THE PANELS WOULD HAVE TO BE KNIT IN THE TERRITORIES AS WELL. OTHERWISE, THE ASIAN COUNTRY DOING THE KNITTING WOULD BE THE COUNTRY OF ORIGIN. THAT WOULD REQUIRE THE USE OF THAT COUNTRY'S QUOTA AND THE PAYMENT OF DUTIES. THE TERRITORIES DO NOT HAVE SUFFICIENT NUMBERS OF SKILLED WORKERS TO DO THE KNITTING AND AS SMALL ISLANDS ARE NOT WILLING TO ALLOW THE ENTRY OF SUCH A LARGE NUMBER OF ALIENS AS TO PERMIT KNITTING. SO, SWEATER MANUFACTURING IN THE TERRITORIES BECAME NEARLY IMPOSSIBLE. BY DECEMBER, TWO OF THE THREE FACTORIES IN THE NORTHERN MARIANAS HAD SHUT DOWN.

IN VIEW OF THE DISASTROUS EFFECT OF THE REGULATIONS, A TEMPORARY LIMITED WAIVER OF THE REGULATIONS WAS GRANTED BY ADMINISTRATIVE MANAGEMENT. HOWEVER, THE SUM IN THE NORTHERN MARIANA IS ONLY 70,000 DOZEN SWEATERS AND THE SUM IN GUAM IS 160,000 DOZEN SWEATERS. BOTH AGREEMENTS EXPIRE IN NOVEMBER.

WORSE YET, THE STORY CONTINUES. THIS WAIVER IS ONLY OF THE QUOTA VISA; SO, THE PRODUCTS ARE STILL FROM A FOREIGN COUNTRY. THEY ARE DUTIABLE. THIS LAST MONTH THE TREASURY DEPARTMENT ANNOUNCED ITS INTEREST TO CHARGE DUTIES AT SOME DATE AFTER

OCTOBER 1, 1985. THE TERRITORIES FACE THE WORST OF ALL POSSIBLE WORLDS. DUTIES OF THIRTY PERCENT OR SO ADDED ON TO THEIR COST OF PRODUCTION WILL RENDER THEM INCAPABLE OF COMPETING WITH STATESIDE MANUFACTURERS. AND, HIGH LABOR COSTS GUARANTEED BY OUR MINIMUM WAGE LAWS WILL RAISE OUR PRODUCTION COSTS ABOVE OUR FOREIGN NEIGHBORS. IN A COMPETITIVE MARKET, THE TERRITORIES CAN COMPETE WITH ANYONE.

IT IS AGAINST THIS BACKGROUND THAT S.680 IS INTRODUCED. IT SETS QUOTAS BASED ON 1984 PRODUCTION; BUT, PRODUCTION LARGELY CAME TO A HALT IN THE LAST THIRD OF 1984 FOR TERRITORIES. BECAUSE OF THE REGULATIONS, FACTORIES COULD NOT OBTAIN WORK ORDERS. AT THE MINIMUM, NEW MACHINERY WOULD HAVE TO BE SHIPPED TO THE ISLANDS AND WORKERS TRAINED TO OPERATE THE MACHINES. 1984 PRODUCTION FIGURES, THEREFORE, ARE CONSIDERABLY BELOW CAPACITY. TO USE THAT YEAR AS A MEASURE IS EXTREMELY UNFAIR.

CONCLUSION

AS THE GOVERNORS OF THE AMERICAN LANDS IN THE PACIFIC BASIN WE ARE ALARMED AT THIS LEGISLATION WHICH DISINHERITS THE AMERICAN TERRITORIES. THE PEOPLE PENALIZED BY THIS ACT WILL NOT BE ASIAN BUSINESSMEN, BUT AMERICANS - BOTH WORKERS AND INVESTORS. EITHER WE ARE PART OF THE AMERICAN FAMILY OR WE ARE NOT. CONGRESS CANNOT PICK AND CHOOSE ON A CASE-BY-CASE BASIS WHETHER FOR ONE LAW WE ARE AMERICAN AND FOR ANOTHER WE ARE FOREIGN. IF WE ARE AMERICAN

CITIZENS OR NATIONALS, WHO SERVE AS AMERICAN MILITARY OFFICERS, WHO ARE SUBJECT ON OUR SOIL TO AMERICAN COURTS, WHO FLY THE AMERICAN FLAG HIGHEST ABOVE OUR COUNCILS OF GOVERNMENT, THEN WE SHOULD BE ALLOWED TO PARTICIPATE IN AMERICAN TRADE.

EACH OF OUR STATE AND TERRITORIAL GOVERNMENTS STANDS READY TO PROVIDE THIS COMMITTEE WITH ASSISTANCE TO PROVIDE SPECIFIC AND RATIONAL TREATMENT TO THE AMERICAN TERRITORIES.

RESPECTFULLY SUBMITTED,

GEORGE R. ARIYOSHI GOVERNOR OF HAWAII	RICARDO J. BORDALLO GOVERNOR OF GUAM
A.P. LUTALI GOVERNOR OF AMERICAN SAMOA	PEDRO P. TENORIO GOVERNOR OF THE NORTHERN MARIANA ISLANDS

Rexford C. Kosack

REXFORD C. KOSACK
ATTORNEY GENERAL OF THE NORTHERN MARIANA ISLANDS

TEXTILE AND APPAREL TRADE ENFORCEMENT ACT

MONDAY, SEPTEMBER 23, 1985

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room SD-215, Dirksen Senate Office Building, Hon. John C. Danforth (chairman) presiding.

Present: Senators Danforth, Chafee, and Grassley.

Senator DANFORTH. This is the third day of hearings on S. 680, the Textile and Apparel Trade Enforcement Act of 1985.

Congressman Frenzel, we are delighted you are here. Please proceed.

STATEMENT BY HON. BILL FRENZEL, U.S. REPRESENTATIVE FROM THE STATE OF MINNESOTA

Mr. FRENZEL. Thank you very much, Mr. Chairman. It is a pleasure to appear before your subcommittee today.

I appear in opposition to S. 608, the textile quota bill. I do so on a variety of grounds; the first is the additional cost to the consumer. The most frequently cited cost estimates are those prepared by the International Business and Economic Research Corp., which indicates that the current costs of tariffs and quotas of textiles to consumers is now about $23 billion, and that the increase in costs under this particular bill will run to nearly $3.5 billion a year or over $15 billion in 5 years.

There are other estimates by the Federal Reserve Bank of New York, the FTC, and by the administration. The committee is familiar with them. Suffice it to say, for now, that the cost to consumers is unreasonable.

It is also true that quotas, as was true in the case of cars, are going to raise the price-per-garment. As countries find they cannot ship what they used to, they will ship the most expensive items that they have.

But also note that in the letter to various Members of Congress from the five Cabinet officials earlier in the year, a net loss to the economy of $2 billion a year is indicated under this particular bill. Pretty tough medicine, I think, to support one rather well-protected industry.

The second objection to the bill is that it deals with some of our trading partners in an inequitable way. I think we have all heard the horror stories about the 80- to 90-percent reduction that Indonesia would have to accept under this bill. I guess I am more worried about a couple of others—three, particularly. One is Thailand, which fought with us in our last three wars, which is taking refugees and holding off Communist governments on three borders, and which will be absolutely wiped out by this particular bill. They will take a 64-percent cut. They haven't got much else to ship us.

Second is the PRC. I was in Beijing a few weeks ago and was told that China will of course continue buying things from the United States after we pass this bill, but only things they can't buy elsewhere. For the Chinese, by far the largest exports to the United States is textiles. If they are unable to ship, they will be unable to buy.

The third one is Hong Kong, which takes a pretty good hit under this bill. The reason I mention them is because it is perhaps the only country in the world that has no restrictions on our doing business there, no tariffs or quotas on our goods other than booze and cigarettes. It seems to me that is a pretty shabby way to repay the only country in the world that actually has a free market and believes in and practices free trade.

I want to just talk for a minute about South America. You know the conditions in Peru, Brazil, and Colombia. They are affected very strongly by this bill. If it is passed, who knows how they are going to pay their bank loan interest? I certainly don't.

Finally, the Possessions. In 1985 when we stiffened the country-of-origin regulations, they lost the duty-free status they had under headnote 3(a) and for the first time had quotas assigned to them. Now they will have reduced quotas. I must invite the committee's attention to the fact that these are American citizens who are going to lose their jobs—perhaps only a few hundred, for instance on the Island of Guam, but it is still the largest single nongovernment employer on that island.

When I was in Asia, it was continually thrown up to me that this bill is called in Asia "The White Man's Bill." I didn't name it that; they did. But they feel it is anti-Asian, and of course Asia is that part of the world market where we think the best U.S. opportunities lie for the future. It seems to me that if we lay this bill on them, we have big trouble. You know that it violates the MFA and our bilateral treaties with 38 countries. I will not go into that.

I do want to talk a little bit about licenses and the number of employees that will be required at the Department of Commerce, the amount of backlog of applications we are going to have, at least when it begins and probably continually, the difficulty there will be for small importers who probably will not be able to obtain licenses, and the cost of the license system, whether it is a flat fee, or whether it is an auction, cost will of course be added to the garments. We already have a high cost to each garment coming into this country from countries under quota now, such as Hong Kong, where the additional cost of a sweater is somewhere between $5 and $8 just for the Hong Kong producer to buy his export ticket.

Mr. Chairman, I think our tariffs are high enough in this industry. They are over 22 percent on apparel, and they are over 9 percent on textiles. The average tariff on all goods coming into this country is a little over 3 percent. Eighty percent of all textile and apparel imports are under quotas now. We have had 300 new quotas established in the last 4 years.

This industry has been protected since long before I was around. I note we had our first VRA with Japan in 1957. We have exempted textiles/apparels from GSP and CBI. U.S. textiles are treated favorably in the Israel free trade agreement. And in the treaty now pending, the Treaty of Free Association, they are also exempted.

I want to talk a minute about jobs in this, what is recognized as a cyclical industry.

The job losses in the industry that are cited were mostly pre-1982. As a matter of fact, most of the import increases occurred between 1982 and 1984. During that period our production was up as well.

I am told that in the IBERC study it is expected that this bill will save 71,400 jobs, however there will be a retail trade loss of jobs of 61,000, and who knows how many others in retaliation against industries, import industries, transportation and service industries? So the net gain is likely to be a net loss. Thirty-six States, just looking at the retail loss alone, will lose jobs.

The jobs that are saved, Mr. Chairman, if you believe the study, and there are plenty of studies for you to believe, will cost, in apparel jobs, $66,000 per job, and in textile jobs about $27,000 per job. Now, this is an industry that is not noted for high-wage employment, and it seems to me there are a lot of other cheaper ways if we want to simply pay off a certain number of employees.

I would also suggest that TAA might be improved. I note your committee is working on a program for that, to protect areas where job losses are highly concentrated in small communities.

Finally, I would state that the areas most affected—North Carolina, South Carolina, and Georgia—the last time I looked, in May, had unemployment rates respectively of 5.4, 5.7, and 6.3 against a U.S. rate of 7.0. Yet, this bill proposes to penalize all of the consumers and taxpayers of the United States, which in aggregate has a higher unemployment rate, to take care of alleged unemployment rates in States which have less of an unemployment rate.

In general, Mr. Chairman, I think this is bad policy. It is a bad bill. It is bad for the consumers. And it is likely in the long run to be bad for the industry, because it will restrict competition. We know what happens to our industry when that occurs.

I thank the chairman and the subcommittee for hearing my testimony.

Senator **Danforth**. Congressman, thank you very much. We have had 2 days of hearings so far. Advocates of this bill point out that textile plants are closing rapidly, that every week or so a new plant closes particularly in the Carolinas, that the people who are employed in textiles and apparel often are women, minorities, people in low-income jobs, and that frequently there is no other alternative for them in the job market should their businesses close down. What would you say to them? That the answer is trade adjustment assistance? Or would you say that maybe something else should be done to relieve the problem of the textile and apparel people?

Congressman **Frenzel**. Mr. Chairman, in the wide range of remedies I believe the quotas are about the worst. Tariff increases are the next worst; and, from there on, whatever else you can do is a little more positive.

I have heard from my colleagues, particularly one in North Carolina, who tells me a plant closes every 11 days. If so, the State is doing a remarkable job of absorbing unemployment, based on the figures that are available to me. But obviously, everybody that is unemployed is an enormous problem for the country and a personal catastrophe. I think a reworking of the TAA, which applies particularly to communities where a single industry or a single plant dominates the employment scene, is probably one of the ways that we can do that. I know you are working on one, and we are, too. I don't know if they are area-specific or what they are.

You can never look a person in the eye who is out of a job and wants to work, and can't get a job because of no fault of his or her own, and find an adequate excuse. But the fact is that, as areas go, unemployment does not seem to be as much of a problem there as it is in other areas where we are not apparently wanting to resort to such draconian measures of relief.

Senator **Danforth**. Congressman, thank you very much for your testimony.

Congressman **Frenzel**. Thank you, Mr. Chairman.

Senator **Danforth**. The next witness is Senator Gramm.

[Congressman Frenzel's prepared testimony follows:]

Testimony by Congressman Bill Frenzel
Senate Finance Committee
Monday, September 23, 1985

Mr. Chairman, I appreciate the opportunity to testify in opposition to the Textile and Apparel Enforcement Act of 1985, S. 680. In my judgement, this bill is protectionist in the worst sense. It is fraught with problems which I would like to discuss briefly.

Consumer Cost-- The International Business and Economic Research Corporation (IBERC) estimates that over a 5 year period, the total cost of this bill to the apparel consumer is 100 times more than any benefits derived by apparel workers. Likewise, consumer cost to textile consumers would be 25 times as large as any benefits derived by textile workers. IBERC estimates a $3.4 billion consumer cost yearly, or about $15.3 billion over 5 years. Other estimates, including one by the Administration, have ranged even higher, up to a $26 billion total. The price that consumers will have to pay for each job saved is $66,019 and $26,934 for textiles. The average apparel/textile job pays about $12,000 per year. The textile bill would have a devastating affect on lower income consumers. Not only would they have to pay at least 10% more for their clothing, but they would find fewer of the lower-cost items available. The tighter the quotas, the more we will see higher-priced items shipped to the US, As was the case with the Japanese auto restraint.

Inequities of the bill-- Mr. Chairman, I am very concerned about the impact of this bill on our trading partners. Textiles and apparel are often the only items these countries have to export. They have already experienced tight quotas and minimum growth rates on many items under the MFA. They already suffer from our high tariffs and all of the other restraints we have placed on textile imports. Many of the countries most affected strategically very important for the US. This bill will curb their ability to earn US dollars to purchase US products to service their debts. One estimate is that $3.5 billion of US currency will be lost for purchases of US exports.

Some examples of how this bill would hurt some of our allies are:

Thailand--a 64% cut. Textiles are 10% of their exports. 100,000 jobs would be lost and social unrest increased. Their cut is much more significant than that of the Big

Three. Thailand also purchases 5% of US cotton exports--50% of their imports.

PRC--56% cut. The country has told us it would retaliate. Since MFN began for the PRC in 1980 and the exports were low that year, it objects to basing the quotas on 1980 levels. It has retaliated before, and states clearly it will do so again.

Korea--35% cut. Textiles are 25% of their manufacturing capability. MFA already has severe limits on Korea--1% on wool and 2.5% on other categories. Korea has a $6.4 billion debt service obligation--much to US banks. Most of its cotton purchases are from the US.

Hong Kong--11% cut. Hong Kong is free from all barriers to US exports. It's import share has declined recently. It is the one "pure" trading country in the world.

Indonesia--90% reduction. It has threatened retaliation of what it calls a serious MFA violation.

Pakistan--40% of its manufacturing capability is textiles/apparel. It says it would retaliate.

Taiwan--47% cut. The bill would place 3% of its work force out of work. They purchase US cotton, agricultural products, and high technology products.

Insular Possessions--A major inequity will occur for the US insular possessions. After the Administration's 1985 executive order which tightened country of origin designation, those countries for the first time were assigned apparel quotas. In addition, since they lost country of origin designation, and thereby lose the benefits afforded to insular possesions under Headnote 3(a), they will have to pay tariffs for the first time. Now this bill will cut the already low quotas assigned to these countries - a triple whammy for these people who are considered to be US citizens. This bill prefers to treat them like foreigners.

Other Developing Countries--Many other countries including Brazil, Bangladesh, Argentina, Columbia, Romania, Singapore, Peru, and others have vehemently objected. All have huge debts and heavy interest payments to US banks.

European countries...Nations outside of the EC have complained, such as the EFTA nations, especially Switzerland, Sweden, and Austria.

Even the exempted EC countries object to our jeopardizing the MFA. They say they rejected demands to limit textile/apparel imports from the US in 1980 because they recognized that much of the problem related to exchange rate differentials. They also resisted limits on quotas when imports rose 225% between 1970 and 1974. The EC has been undergoing much greater restructuring of its industry than we have faced.

This bill has been called the "white man's bill" in the Far East because the Asian nations believe it is directed at them and may have a racial bias. It excludes the current nations of the European Community, Canada, and the CBI nations. Recently, imports of textiles and apparel have increased through these countries, and we can expect many new imports of textiles and apparel as well in some of the lower-wage countries where Far East textile/apparel operations will shift their production.

Mexico--Because US textile interests and investments are big in Mexico, it has favorable treatment in the bill. It will recieve the higher growth rate that lesser developed countries receive, in order that the 807 operations owned by big US manufacturers will be protected.

Treaty Violations--This bill violates the MFA, since it eliminates the concept of direct negotiating with our allies. It eliminates the principle that we must prove market disruption before new quotas can be initiated, or growth levels limited. It rolls back current quotas unilaterally which is clearly violative of the MFA.

The record shows that the MFA does work. Any loose ends should be negotiated next year, including the question of possible addition of silk, linen, and ramie. The share of import market for the Big Three importers has declined, according to the Department of Commerce. Taiwan went from a 23% share in 1980 to 18% in 1984. Korea from 17% to 13%. Hong Kong from 22% to 16%.

Licensing System--Another inequity in the bill is the complicated import licensing system set up to regulate imports. The number of employees needed at Commerce to create this new bureaucracy would be overwhelming. There is no way that needed requests for extra employees will be honored by OMB in these times of severe fiscal problems. The delays caused by entry applications piling up at Commerce would basically have the effect of eliminating most imports. Also the fee system, either flat or auction, that would have to be set up to regulate the licensing system would be costly to importers and consumers, and worst of all, it might eliminate many small importers completely. The uncertainty this would create would force others out of business. The cost of our own fees would, of course, be added on to quota auction costs that are operating in other countries. Several years ago, Canada tried an import licensing system for a year but abandoned it due to the chaos it created.

Supply Problems--The bill also does not account for current supply problems. There are some garments that US domestic manufacturers will not produce--perhaps due to the complicated design of the garment, or of a short run request. The US industry does not always satisfy all of the fashion needs of the US consumer.

Coverage--The bill's coverage is too broad. Specifically, it includes stuffed textile toys--the toy manufacturers have strongly objected to this inclusion and many other non-apparel textile items which should not be covered. Few are made in this country. It would also limit the import of antique ethnic clothing which is not available in this country.

It would further place silk, linen, and ramie under quota for the first time. Silk is not made in this country and is considered a luxury fabric which should not compete with low-priced fabrics or garments. This bill would literally force US consumers not to buy products which are not made here. The import problem seems to be exacerbated by the apparel industry itself which, according to its industry association, imports 25% of its needs.

Unemployment--Despite my objections to this bill, I do sympathize with the plight of the textile and apparel workers who have lost their jobs. Particularly, I can understand how devastating the loss of a textile plant is to a small town that has very few employment opportunities. I sympathize with them, just as I do with workers in other major US industries, which are, likewise, going through very difficult periods of adjustment.

While I also recognize that imports have had an effect on employment in the US textile/apparel industry, I believe that there are other factors as well that have contributed to the decline of the industry. First of all, productivity improvements have had an effect. Next, the overvalued dollar must be blamed along with the general economic turndown in 1984, a year with significant plant closings. High inventories due to anticipated high consumer demand in

1984, which did not occur, must also be blamed. Also some of our trading partners just recently took advantage of quota growth from past years which contributed to a surge in imports during 1983-84.

While the unemployment figures are over the average for all manufacturing, in 1984 textile employment increased by 10,000 workers while apparel employment increased by 32,000 workers. This was the year that many textile plants closed due to lower demand. The figures would tend to show that productivity increases have made the competitive parts of the textile/apparel industry stronger.

Most of the job losses in the textile/apparel industry occured before 1983. 75% of the import increases were between 1982-84. During that time, domestic production went up 15% (IBERC) resulting in the job increases above. This suggests that productivity have had a lot to do with the loss of employment in the textile/apparel industry.

Senator Jesse Helms, in his newsletter, estimates productivity improvements at 4% per year. IBERC also says that 14% of the initial employment gains of the textile bill should be lost within 5 years due to productivity gains.

A chart done on the House side shows that from 1982 to 1985, US production, imports, and US employment are closely related. US employment rises when imports increase and likewise employment drops when imports drop suggesting that general economic downturns have more of an effect on employment in the industry than imports.

The IBERC study estimates jobs to be gained under S. 680 to be 35,272 in the textile industry and in the apparel industry 36,141. In comparison, jobs lost in the retail industry during the same period are 57,931 in apparel and 3,577 in textiles. We gain 71,413 jobs--but we lose 61,508 jobs. That does not even figure the jobs lost in importing, transportation and other services, plus those lost through retaliation. 36 states will lose jobs, according to IBERC, if this bill passes. My own state of Minnesota will lose 1096 in retail only. I would expect many more jobs lost in Minnesota's agriculture and high-tech communities through retaliation.

In addition to the small net job gain, consumers will pay $66,000 per job for apparel and $27,000 per job in textiles, as I mentioned above. We have also forced other sectors of the economy to suffer loss of exports due to retaliation and we have also seriously risked our relations with many needy developing countries.

Finally, the unemployment rate in the three states allegedly most affected by textiles, North Carolina, South Carolina, and Georgia, were respectively, 5.3%, 5.7%, and 6.3% in May of 1985, all under the average for the whole country. If S. 608 is passed, consumers who stand a greater chance of being unemployed elsewhere will be asked to pony up 10%+ more for apparel purchases to save the jobs of people less likely to be unemployed.

I do not think we should ignore the plight of the US textile/apparel industry. We should try to find retraining programs, such as trade adjustment assistance, that can be adapted to fit the special needs of the US textile/apparel industry. We should also address the particular complaints of circumvention , coverage, and quota growth during the upcoming MFA negotiations.

We must get our own economic house in order to bring down the value of the dollar and to maintain the right mix of tax incentives to keep our industries competitive.

Current Protections--The US textile/apparel industry recieves the highest protection in the nation. Its tariffs are the highest--averaging 22.7% for apparel and 9.2% for textiles (our average tariff on manufactured goods is 3.2%). We would lose $800 million per year in tariffs if this bill were passed. We have the MFA along with bilateral agreements with 34 nations. The MFA has been extended twice, each time providing for more quotas and lower growth limits on sensitive products. 80% of our textile/ apparel imports are now under quota. 300 new quotas have been initiated since 1981. The combined cost of protection from both quotas and the tariffs is $23 billion per year according to IBERC. Textiles have recieved the longest protection of all our domestic industries, beginning in 1957 when we established a VRA with Japan. We have tightened our country of origin regulations to eliminate quota circumvention. We have modified our call regulations to make it easier to claim market disruption and thereby initiate new quotas. We have kept textiles/apparel out of the GSP, the CBI, and given them less favorable treatment under the Isreal FTA. I don't think we can do much more without seriously risking our relationships with our allies, and without the expectation that the government owes all injured industries this kind of extraordinary treatment.

The textile bill is looked upon as a quick fix. Not only will it not accomplish any real relief to the domestic industry, it will wreak havoc with rest of our economy and seriously harm our foreign policy interests. We must very carefully consider all of the negative aspects of the bill. This is a bill which should never see the light of day. I urge my Senate colleagues to vote against it.

STATEMENT BY HON. PHIL GRAMM, U.S. SENATOR FROM THE STATE OF TEXAS

Senator GRAMM. Mr. Chairman, thank you for giving me an opportunity to come before you today.

I would like to talk about two issues that are important to S. 680, but which I think are fundamental to all the proposed protectionist measures in the Congress. One has to do with the basic assertion of the new protectionist that America is losing jobs due to the trade deficit, and the second has to do with the fundamental assertion that raising tariffs or setting quotas will improve the situation. Deviating from my background as a schoolteacher to be brief, I would like to go through and address those two issues, and then make a simple proposal about a bill that I will introduce today or tomorrow and that I may offer as an amendment to S. 680, that will actually increase American jobs by opening up markets rather than closing them. But before I do that, let me touch on a couple of major points that I think are almost totally neglected in the debate about protectionism.

Seldom does a day go by that I don't open the Washington Post or listen to somebody in the House or Senate talking about America losing jobs. The argument is that due to our trade deficit we are sending millions of jobs abroad. In fact, I have heard a claim which is verified only by repetition that says, "For every billion dollars of trade deficit, America loses 25,000 jobs." And several times last week in most of the Nation's major newspapers that figure was employed to project that we are losing 3.5 million jobs a year due to this trade deficit.

Now, first of all, Mr. Chairman, that is totally false. There is no evidence whatsoever to substantiate that, on net, the United States is losing jobs to anybody. In fact, there is every evidence to substantiate the fact that we are gaining jobs at the expense of our trading partners.

There is no doubt that if you are in an area which is facing stiff foreign competition, and you are being undersold in price or outproduced in quality, that there are companies going out of business and that there are jobs being lost. But if you look at the aggregate economy, in the last 3 years we have created 8 million new jobs, in the most rapid period of economic growth in the 20th century in terms of job creation except for the period 1940 and the first half of 1941 as we mobilized into World War II. So it is somewhat strange that all of the people who are talking about America losing jobs fail to look at the fact that there was only one period in the 20th century where the United States has created more jobs than it has in the last 3 years, during which the trade deficit has grown.

I guess the logic of the argument is that we are losing jobs and the jobs are going to those two areas that have the biggest trade surpluses—the European Economic Community and Japan. The only problem is that, while it makes good political rhetoric to make those assertions, there are no facts whatsoever to back up these claims.

In the last 3 years, Europe has stagnated as unemployment has risen by 17 percent. In the last 3 years, while America's trade deficit has risen and American employment has skyrocketed, unemployment in Japan has risen—the percentage of unemployment—by 12 percent. So, the truth is, there is no evidence whatsoever to substantiate that in the aggregate the United States is losing jobs because of the trade deficit.

A second point I would like to make has to do with the assertion that we can somehow improve on the situation by raising tariffs or by imposing quotas. It is important to remember that we have a freely set exchange rate, set on the world currency market by people in the United States who are trying to buy foreign currencies to undertake expenditures, to undertake investment and to pay debts. It is also set by foreigners who are trying to buy dollars to spend money in the United States, to invest in the United States, and to pay debt here. And that the exchange rate is set so that in dollar terms foreigners are trying to buy as many dollars as Americans are trying to convert into the currencies of those countries.

This is a free market price that is set in the presence of a great deal of information and almost instantaneous exchange.

If we imposed a quota, for example, under S. 680, the argument would be made that this would not only help textiles but that it would help employment. The truth is, that is not a fact. If we imposed a quota that forced Americans to reduce their consumption of foreign textiles, that would represent a reduction in demand for foreign currencies by Americans using dollars. That would mean that the dollar would rise on the world currency market, not fall;

and, while we would protect some jobs in textiles, we would do so by raising the value of the dollar and making the United States less competitive in those areas where we have a comparative advantage, where we have modernized, where we can compete on the world market.

So the truth is that what we do through this process, if we adopt S. 680, is to simply transfer jobs from those areas where we have a competitive advantage, where we are selling on the world market, to an area where we are buying on the world market.

I don't need to greatly elaborate on the fact that this is exactly what Britain and France have done for 20 years. In protecting an industry where they are not competitive, they have lowered their competitiveness in industries where they are competitive, and in the process, the world and those countries in particular have lost.

Finally, I want to make one more point before turning briefly to a proposal for an amendment that I might offer on the floor.

It is asserted that we are in the process of experiencing the horrors of becoming a debtor nation, that Ronald Reagan may be asleep in the White House but the American people have come to recognize that we are about to be a debtor nation.

Well, Mr. Chairman, I would like to make note that we were a debtor nation between 1867 and 1914. After 1914, that debtor status, mostly due to World War I, was reversed. During this horrible period of being a debtor nation, we experienced the most rapid rate of economic growth in the history of mankind. We had a growth in labor productivity the magnitude and endurance of which had never been experienced anywhere else during that period. We went from basically an underdeveloped agricultural nation to the richest and most powerful nation on Earth. During that period, 20 million immigrants came to this country seeking opportunity and freedom, and found them both.

The truth is, there is nothing inherently bad or inherently good about trade deficits. There is nothing inherently bad or inherently good about being a net importer of capital. What is important is why it is happening.

It seems to me, Mr. Chairman, in closing out my comments on this general trade issue, that our problem is not the trade deficit but the Federal deficit. Due to the fact that the Federal Government is borrowing $200 billion a year, we are competing with the private sector, driving up interest rates, and in the process we have produced the highest real interest rates in the world. These interest rates have acted as a magnet, drawing capital from all over the Earth. We are drawing capital from Europe and Japan from people trying to convert their currencies into dollars to invest at these high interest rates. We have produced our excessive value for the dollar, 40 percent above the purchasing power of the dollar in terms of goods and services, and in the process created the major cause of our trade deficit, the major cause of the overvaluation of the dollar.

If we in Congress want to deal with the problem, it seems to me, Mr. Chairman, that we ought to do it by dealing with the Federal deficit, that to engage in protectionism not only invites retaliation but will hurt the very people we are seeking to help.

I noted in your question earlier that you talked about those who might lose their jobs in textiles as being among the poorest manufacturing workers in the country. But I think it is important to remember that a quota on textiles or a tariff on textiles imposes a very real cost on the poorest of our citizens. In fact, new data suggests that families with below $10,000 of income are already paying more in terms of taxes as a result of tariffs and licensing fees and quotas than they are paying in terms of income taxes. So, we are talking about the most regressive tax in our society.

Finally, Mr. Chairman, I am going to introduce today or tomorrow the United States Products Integration Incentive Act of 1985. It is a very simple bill that recognizes many of our imports have a lot of American content.

Currently, under the 807 Program, in imposing tariffs we take this into account. For example, if we send cloth and zippers and buttons, if we provide the cutting of the material and truck it to Mexico and they sew it into trousers, then we take into account U.S. content before imposing a tariff. But in imposing the quota we do not take that into account.

My proposal, Mr. Chairman, is to take into account American content in setting the quota and to give some advantage under existing quotas to those nations who are heavy users of U.S. content. Most of those nations are in the Caribbean Basin, Mexico being the biggest. In fact, there are over 1 million American jobs that are directly related to imports from Mexico; everything from our steel which they convert into barbed wire, to about 50 to 60 percent of all textiles coming in from Mexico which are American value content.

What this would do, Mr. Chairman, is simply change our quota system to reflect our tariff system, so that if a pair of trousers coming out of Mexico were 50-percent U.S. value content, those trousers would count as only half a pair of trousers under the quota system. We would effectively provide a stimulus for American jobs by buying trousers from Mexico rather than from somewhere else. Not only would that help in our effort to provide a sound economic base in the Caribbean Basin, but I think it is perfectly in line with expanding trade to create American jobs. And I thank you for your endurance of my long lecture.

Senator **Danforth**. Very, very good presentation, Senator Gramm. Thank you.

Senator Chafee.

Senator **Chafee**. Mr. Chairman, I did not hear all of Senator Gramm's testimony, but it certainly was excellent.

I think the points you make are good ones. Some of the people seem to suggest this Congress is in full cry for every form of protectionism, and I think some of the points you raise are very, very good ones, and I appreciate your taking the trouble to come here, Senator.

Senator **Gramm**. Thank you.

If I could, Mr. Chairman, let me inject one other point: You have legislation before this committee that would impose a 25-percent tariff against South Korea and Brazil, the argument being that they are running too big a surplus and that we ought to force them to reduce their surpluses or else impose a tariff. But what is neglected in this whole analysis is that Brazil owes $102 billion. It takes $11 billion to service Brazil's debt, in terms of interest, much less to pay off any of the principal. So, to impose a protective tariff on Brazil, which has run a $3.2 billion surplus, on average, in the last 3 years, a surplus that will pay about one-third of their interest cost on their debt, or to Korea, which has run about a $2.5 billion surplus while it has run a deficit in its overall accounts where they owe $44 billion, in essence would force those countries into international bankruptcy. We would be the principal loser because of a collapse of the world currency market.

So, I want to urge this committee to look at this bald assertion that countries that are running surpluses are engaged in unfair trade practice. The truth is, you can't pay interest to the United States unless you run a trade surplus. And I think those two countries are very important in terms of our security position in South America and in Northeast Asia. And I think it is important to look at those countries and note that this idea that we simply impose tariffs against countries with surpluses neglects the fact that you can't pay off debt, you can't service that debt, unless you have a surplus. Both of those countries have surpluses inadequate to service the debt now. And if we imposed a 25-percent protective tariff against them, in my opinion we would drive them both into bankruptcy.

Senator DANFORTH. Senator, thank you very much.

Senator GRAMM. Thank you, Mr. Chairman.

Senator CHAFEE. Mr. Chairman, I would just like to echo the point that Senator Gramm made about the deficits to the United States. I mean, there is the problem. If we had our deficits under control, then I think we would be in a lot better position to be able to complain about the trade situation in the world and the imbalance of trade. But until we do what we can to straighten out our own house, which we have decided not to do, unfortunately, and I might say it isn't because of these three Senators here—we all voted for that tough package, but it didn't go.

So, I just want to echo the point you made, Senator, that the key point in all of this is the deficits of the United States.

Senator GRAMM. There is a strong factor here, Senator Chafee, of the U.S. Congress not wanting to deal with the real problem and in turn trying to blame it on foreigners who can't vote in American elections.

Senator DANFORTH. Senator, thank you very much.

Next we have a panel. I know in our last panel Mr. Alan Reed is scheduled for our last panel, but he has an appointment that he has to make. So, I am going to move him up to the first panel, which will consist of Mr. Alan Reed, vice president for general merchandise, The Gap, on behalf of the American Fair Trade Council; Mr. Art Ortenberg, chief executive officer, Liz Claiborne, Inc.; Mr. Martin Tandler, president, Tandler Textiles, Inc.; Mr. Robert Farah, executive vice president and president of international division, Farah Manufacturing Co.; Mr. Michael Clayton, director of legal services and corporate secretary, Samsonite Corp.; and Mr. Carl Davis, east coast counsel, Nike, Inc.

Senator CHAFEE. Mr. Chairman, while these gentlemen are getting squared away, could I make one point?

It seems to me that what would be helpful, to me anyway, in listening to the testimony isn't just how consumers are going to be affected. Yes; consumers are going to be affected; they are going to pay more. But what I am also interested in is what you might call the tangential or ripple effect of protecting one industry and hurting another.

Example: It is easier for me to deal with the steel industry, but everybody comes in and says, "We must put up tariffs against steel, because our steelworkers" who are making $22 an hour "are losing their jobs because of imports from South Korea, Brazil, and so forth."

Yet, if that steel tariff goes on, the situation results in the following: a steel fastener maker in the State of Rhode Island who is competing in an international market, providing jobs in Pawtucket, RI, at $7.50 or $8 total an hour, is able to produce these fasteners because he is using Korean steel. Now, when the tariff goes on the steel, he is cut off from getting the steel that he makes his fasteners with, and thus he loses out.

So, everybody said, "Oh, isn't it grand? You protect the steelworkers." But somebody down the line who is using imported steel to compete and sell his product in the United States, or possibly abroad, loses out because the fasteners then are made in Brazil and come in all made and undercut his market because he can't get the lower price steel.

I am not asking this panel, but I know members of the other panel are also present. So, as one member of this committee I am interested in what the effect of this bill is going to be to others out there who are trying to make a living, not solely the consumers but also other employees who work for companies who are producing goods from the imported textiles.

Thank you.

Senator DANFORTH. Mr. Reed, why don't you proceed and then keep your eye on your watch. If you have to leave, fine. Stay as long as you can.

STATEMENT BY ALAN REED, VICE PRESIDENT FOR GENERAL MERCHANDISE, THE GAP, SAN FRANCISCO, CA, ON BEHALF OF THE AMERICAN FAIR TRADE COUNCIL, SAN FRANCISCO, CA, ACCOMPANIED BY ROGER KASE, PRESIDENT, RETAIL DIVISION, ESPRIT, SAN FRANCISCO, CA

Mr. REED. Good morning. My name is Alan Reed, and I am the senior vice president/general merchandise manager for the Gap Stores, Inc., and I am also representing the American Fair Trade Council.

The Gap is an apparel retailer that employs over 10,000 people throughout 42 States. Out current sales volume is in excess of $520 million, and we sell 36 million garments. Of that, 70 percent is domestically sourced merchandise.

I would like to focus my testimony this morning on a myth. It is a very popular myth. It is the myth of the "greedy retailer." I think to really understand the myth it would be helpful if we could clarify the structure, the cost structure, of the imported product.

I have taken a jean and actually color-coded it; it is not a new fashion. This is a color code of the actual cost that the consumer must pay for an apparel product. The white section at the top illustrates the cost of the actual manufacturing of the garment. This is the price that the consumer pays for the actual fabric, for the thread, the buttons, the zippers, and the labor cost that we pay to the foreign manufacturer. This is the direct manufacturing cost, represented by the white.

The red section represents the cost that the American consumer is currently paying for the protectionist measures that are now in effect. This takes the form of quota charges that we must pay to the foreign manufacturers to allow us the right to import the garment to the United States, and it also takes into consideration the tariff duties that are imposed by the U.S. Government upon importation of the garment into the United States.

So, this represents today to the American consumer, in a pair of jeans that retails for $20, approximately $3 is going just for protectionist measures as they currently exist. That represents about $24 billion for the entire industry. The red zone represents current protectionism.

The blue zone represents the amount of money that it costs us as a retailer to do business; in this case it is about 50 percent of the total garment value. This represents in The Gap stores alone 10,000 American jobs. It includes everything from the warehousing costs, distribution costs, the freight costs to deliver it to the American consumers' communities, it includes the salesperson's cost to actually sell and service the customer when they are in our store, and it includes the advertising and communication expenses to explain the product benefits to the consumer. It also includes our financing costs, our administrative, accounting and overhead costs.

The smallest section of the jean, right at the bottom, just the cuffs, represents the proportion of the selling price that is actual net profit to the American retailer. In this case it is about 3 percent of the garment's value.

When you look at the total value and the profit structure, you can see that the domestic textile industry runs about 5.8 percent.

So, I think this example clearly illustrates that the myth of a "greedy retailer" is just that, a myth. In fact, the American consumer is paying a very dear price, the red section, for current protectionist measures. And the additional measures imposed by this bill would in fact increase the cost that the American consumer would have to pay; this red zone would actually expand.

Thank you very much.

Senator Danforth. Thank you, Mr. Reed.

[The prepared statement of Mr. Reed follows:]

S. 680

Testimony by Alan Reed
Vice President General Merchandise, The Gap, Inc.
on behalf of
The American Fair Trade Council, (AFTC)
a Coalition of West Coast Importers
Exporters and Retailers

Subcommittee on Trade
Subcommittee on International Trade
Committee on Finance
U.S. Senate

September 23, 1985

SUMMARY OF TESTIMONY

The American Fair Trade Council (AFTC) is composed of companies that are opposed to the enactment of S.680. AFTC is composed of importers and retailers from the West Coast who have banned together in opposition to the bill.

If enacted, this bill will --

- increase consumer costs by an estimated $3.4 billion annually
- for the majority of states, cause net job losses, while primarily benefitting three southern states,
- create an expensive and complex licensing scheme that would further raise costs to the retail customer and unduly complicate the importing process; and
- require the creation of a bureaucracy and cost the U.S. government nearly $800 million annually in reduced tariff revenues.
- retailing is a highly competitive industry with historically low profit margins. Competition benefits the American consumer.

TESTIMONY OF
ALAN REED
BEFORE THE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON INTERNATIONAL TRADE
SENATE FINANCE COMMITTEE

Good morning. My name is Alan Reed and I am the Vice President of Merchandise, The Gap, Inc. I am testifying today on behalf of The Gap and the American Fair Trade Council.

The Gap, Inc. is a publically held corporation that employs over 10,000 in 630 stores throughout the United States. Last year we sold over $500 million dollars worth of apparel from our stores (36,000,000 pieces) seventy percent of those goods were purchased from domestic suppliers. Seventy percent of the stores goods are made for The Gap under our own label and twenty-five percent are made by Levi Straus & Company. The Gap started with a single store in 1970, and has grown steadily to its present size due to a simple success formula. Our philosophy is to pass on the advantage of purchasing low cost goods to our customers. The Gap is a vertically integrated company that brings the maximum amount of quality goods to the consumer at low prices. We have been successful because our pricing system has allowed for access to low priced foreign and domestic goods and this, combined with sound management and a low profit margin, has resulted in our growth.

The apparel business is extremely competitive and the beneficiary of that competition is the consumer. Most retailers purchase the vast majority of their goods from domestic sources, as does The Gap. Of course, we also import apparel from overseas. All of these purchases, domestic or foreign, are market-driven by the needs of our customers. Their needs are variable; sometimes it is price; sometimes it is quality; sometimes it is innovation; sometimes it is fashion uniqueness. Whatever their need, it is our objective to meet it. In a sense, we are the aggregator of goods for our customers. If we are right, we make a profit. If we are wrong, we do not. We, at The Gap, enjoy success because we have brought value, style and quality to our customers. Unfortunately, our ability to fill those customer needs has been increasingly and severely restricted by a combination of import controls, quotas, high tariffs, and administrative directives which now regulate trade in textile and apparel to a degree unmatched by any other domestic commodity or manufactured product. As a result, retailing has been severely hurt not only by all of the economic vagaries that have beset the nation, but also by the additional problem of unnecessary, unfair, and often unpredictable restrictions on our purchase of goods from abroad.

Retailers deal with the existing restrictions and other trade problems everyday. Competition in the retail business is fierce. Retailers do not have the luxury of the guaranteed market share system sought by the domestic textile and apparel industries. In fact, I know of no other industry in this country that enjoys this unprecedented system of legislated market share. Retailing is an easy access industry. Ingenuity and hardwork still combine to produce profits and successful companies. Retailing is still a tribute to the values that this country was founded on. Competition has successfully weeded out those companies that could not compete. The Gap was built, in part, because its management could adjust to America's changing lifestyle and adapt its business to a changing economy

Because retailing is such a competitive industry, profit margins have historically been very low. For example, according to the most recent study prepared by the National Retail Merchants Association, the pre-tax earnings of department stores as a percent of sales were 5.83 percent, and for specialty stores only 3.76 percent. Our own company is considerably below these figures. This compares with 7.4 percent for nondurable manufacturing and 5.6 percent for textile mill products. This legislation will hurt the free market business with low profit margins, while further protecting the most protected industry in America.

Competition for retailers means constant adjustments. The old cartoons about the price wars between two retailers on Main Street have been readily repeated all over America. Price is only one engine that drives this system. The other is quality. The retailer that can combine quality, quantity and price can succeed in America. It is the customer who decides who is successful.

I would like to try to correct some fundamental misconceptions about the term "markup". First of all, there are four retail accounting terms that are sometimes confused or used incorrectly. The first is "gross margin", which is basically the difference between what was received for a sale and what the direct costs associated with that sale were. In retail accounting this involves a consideration of purchases, discounts, shortages, and ending inventory. The second term is "profit", which is basically the gross margin number minus all other expenses. The third term is "markup", which is not gross margin and not profit, but an arbitrary number that is applied to the retailer's purchase price for goods to arrive at an initial selling price. If the selling price is later changed (and when products are not sold the price is reduced in order to promote a sale), this change is effected in retail accounting terms by a "markdown". Keep in mind that the retailer's goal is not to have the highest markup -- his goal is to sell the product. Thus, if his initial markup is too high, a markdown must be taken in order to reach the desired goal.

Let me further note that the "first cost" -- the price the retailer pays to its vendor, whether domestic or foreign -- contains different elements for a domestic product than for an import. As a result, the "markup" on these products will vary to adjust for these different components. A domestic product typically comes with direct advertising by the manufacturer, a co-op advertising offer for the retailer, some or all of the transportation paid, a return option, shorter lead time for ordering, and other items, as well as a discount for payment within certain agreed upon time frames. None of these are available when a retailer goes overseas to buy a product. The "markup" on imports, thus, tends to be higher to cover those costs and a variety of expenses not included in the cost of a domestic product.

It is misleading and disingenuous to compare the markup on imported and domestic products. First, imports involve significantly higher buying expenses. One of the substantial costs is the difference in payment terms between foreign and domestic purchasers. Second, the long lead time required on imports raises their cost to retailers. Third, risk factors are substantially higher on imports, defective foreign goods must be retained by the retailer, and the retailer takes the risk of change in fashion styles. Fourth, the final cost of imports is harder to predict because of currency fluctuations, changes in customs valuation, and the like. Fifth, retailers directly assume many costs on imports borne by manufacturers on domestic products.

Keep in mind that the details of this discussion regarding markups on imported products relates to only 30 percent of the products that were sold by The Gap. I think it is obvious that retailers prefer to buy domestically.

I would like to make some specific points about this legislation. There has been a substantial amount of information supplied by both the supporters and opponents of this bill on what it will do if enacted. In business, we call this information overload and it generally results in chaos. It is our view that legislation as sweeping as this must be carefully and objectively looked at. We are concerned about domestic production and jobs in the textile and apparel industries. These workers are the type of customer to which our products are aimed. Loss of their buying power will hurt our business. Everyone knows that America is faced with high trade and budget deficits and that many domestic industries are struggling to adjust. This legislation though is not the answer to their problem, and it is certainly not the answer to the nation's problem. Protectionist legislation can only trigger effects that will decrease domestic employment in other sectors, increase cost to consumers and cause further inflationary impacts. These impacts combined with the potential for retaliation against our exports argue strongly for a thorough and complete analysis of the problems of the domestic textile and apparel industry before we trade jobs in textile plants for jobs in retail outlets. The rush to judgement may be good politics back home, but it is poor national policy. I would ask that this committee carefully consider the enormous compilation of data and controversy and to proceed in a rational way to determine the real problems which this bill attempts to address; the balanced preservation of a domestic industry without substantial harm to the rest of the economy.

A retail company's single greatest resource is its customers. There is almost a paternal sense about our Company's relation with its customers. The Gap clearly wants to make a profit, but it also wants to protect its position with its customers so that The Gap will be here tomorrow, the next day, and the next. I do not profess to be able to accurately predict the economic outcome of this legislation but I can say that this legislation is not good for our customers.

A recent International Business and Economic Research Corporation assessment concluded that the restrictions will cost apparel consumers an extra $2.4 billion annually and textile consumers $1.0 billion annually. This is in addition to the costs of the present protectionist measures, which have been estimated by economists to currently cost the American retail customer over $23 billion annually.

In the first five years of the proposed legislation, the total cost to the apparel consumer has been estimated at $11 billion in 1984 dollars, and to the textile consumer, $4 billion in 1984 dollars.

It is estimated that apparel import prices would increase on an average by 16 percent at wholesale and textile import prices by an average of 33 percent. These increases reflect both quota-induced price increases and product upgrading as foreign producers concentrate on the export of higher unit-value goods. These increases will also have an upward effect on domestic product prices. There will not be any net gain for consumers from this legislation, only increased prices and decreased selection. It is in our interest to have a strong domestic textile and apparel industry, and it is in our interest to have fair foreign competition. The Gap's interests are dictated by two considerations - competition and our customers. We are opposed to this legislation because it runs afoul of both of these considerations. Protectionism is not good for competition, and reduced competition is not good for the American consumer, our customer.

In conclusion, I want to stress that the retail apparel industry is highly competitive and the consumer is the direct beneficiary of that competition.

Senator DANFORTH. Mr. Ortenberg.

STATEMENT OF ART ORTENBERG, CHIEF EXECUTIVE OFFICER, LIZ CLAIBORNE, INC., NEW YORK, NY, ACCOMPANIED BY EUGENE T. ROSSIDES, ESQ., ROGERS & WELLS, WASHINGTON, DC

Mr. ORTENBERG. Good morning, Mr. Chairman, members of the committee. I am Arthur Ortenberg, chief executive officer and founder of Liz Claiborne. Because of my extensive background as a hands-on textile executive prior to starting Liz Claiborne and my continuing involvement in global textile product, I am here to testify against this bill.

I believe it is a bad bill because it demands no assistance for the jobless, it deludes us into an acceptance of our failure to compete as solely an external circumstance, it requires no quid pro quo of industry, it discriminates against developing Asian countries in favor of developed European countries, it creates an illogical and unworkable import license system when an efficient alternative already exists and is underutilized and underfunded, it encourages further closing of foreign markets to our products, it will undermine the international banking system, it threatens international political stability, it threatens and destroys at a stroke 34 separate trade agreements.

This bill is an invitation, in my opinion, to global trade anarchy.

Mr. Chairman and members of the committee, you have my complete statement. I would like to highlight some of the materials appearing on pages 16 through 22.

Domestic industry claims it has modernized. The fact is that only 30 percent of the looms in place last year were of the modern shuttleless variety. The fact is that millions of dollars have been spent unwisely on non-market-relevant equipment. The fact is that textile analysts have criticized industry for its marketing failures.

Domestic industry claims imports have shut down plant after plant. The fact is that many plants were shut down because they were obsolete; the buildings themselves were structurally antiquated. Domestic industry claims that it is being unfairly forced to compete with cheap foreign labor. The fact is that labor is only 10 percent of the cost of one yard of denim. The fact is that innovation in product is often more important than price.

Machinery cannot replace market-directed decisionmaking. Protection cannot replace good management.

That concludes my statement, Mr. Chairman.

Senator DANFORTH. Thank you, Mr. Ortenberg.

Mr. Tandler.

[Mr. Ortenberg's written testimony follows:]

STATEMENT OF ARTHUR ORTENBERG
Executive Vice President, Liz Claiborne, Inc.
Before the

Subcommittee on International Trade

of the

Committee on Finance

on

S. 680

September 23, 1985

SUMMARY OF THE TESTIMONY OF
ARTHUR ORTENBERG, EXECUTIVE VICE PRESIDENT,
LIZ CLAIBORNE, INC.
BEFORE THE COMMITTEE ON INTERNATIONAL TRADE
ON S.680
SEPTEMBER 23, 1985

1. The U.S. is today engaged in trade competition of unprecedented dimension. U.S. markets are in danger of being captured by both developed and undeveloped countries, armed with an array of export incentives to help sell their products. Because of market loss and technological and economic structural changes many workers have lost their jobs. Others are in danger of losing theirs.

2. S.680 fails to deal with the fundamental problems of international competitiveness that are posed by this situation.

- It demands no assistance for the jobless.

- It deludes us into an acceptance of our failure to compete as solely an external circumstance.

- It requires no quid pro quo of industry.

- It discriminates against developing Asian countries in favor of developed European countries.

- It creates an illogical and unworkable import permit system when an efficient alternative system already exists and is underutilized.

Summary Continued

- It invites further closing of foreign markets to our goods.

- It will undermine the international banking system.

- It threatens international political stability.

- It destroys at a stroke 34 separate trade agreements and forecloses all possibility of future positive trade actions.

3. The problems of the domestic textile industry, far from being caused solely by imports, can be laid to lack of foresight, lack of flexibility and a lack of focus on marketplace imperatives.

4. What is needed is not onerous and discriminatory trade restrictions, but tough bilateral negotiations and a realistic approach to the competitive handicaps we suffer as a result of high budget deficits.

5. Liz Claiborne, Inc., is actively involved with both representatives of apparel workers and textile mills in seeking positive, long-term, attainable solutions. We are also establishing grants at universities in states most affected by textile and apparel job loss to better understand the true nature of the problem and to then implement positive courses of action in conjunction with labor, industry, government and academe.

We must resist long-term, irreversible, politically motivated actions if we are ever to regain our international competitiveness in the textile apparel sector as well as many other threatened industries.

Mr. Chairman and members of the Committee, I am Arthur Ortenberg, Executive Vice President - Operations and a Founder of Liz Claiborne, Inc., a multi-product apparel company. The greater part of my working life has been in textiles, both as a manufacturer and as a consultant. Prior to starting Liz Claiborne my accounts as a consultant included Celanese Corporation of America, Dan River Mills, B.R.W., tricot division of Lehigh Valley Industries, the White Stag division of Warnaco, Fabrizaar, a textile home sewing division of General Foods, and others. My experience in and with the domestic textile industry is lengthy and has been intense. All of these years have been spent as a product person. My job was to find out what the consumer wanted and then to help create product that the consumer would buy.

It is that marketplace background that brings me here today to urge you to take a closer look at S.680 and reject it! I ask you to closely examine what S.680 does and does not do as well as the assumptions we are being asked to accept as a justification for its enactment.

U.S. Competitiveness and Job Loss - At the Crossroads

The U.S. is today engaged in a trade war of unprecedented dimension. U.S. markets are being attacked by both developing countries and developed countries, armed with an array of export incentives to help sell their products. Many U.S. workers have already lost their jobs. Others are in jeopardy of losing theirs.

The members of this Committee are unquestionably more acutely aware than the general citizenry of the critical economic problems our country is facing today. We have seen the relentless erosion of our industrial base. We have seen industry after industry lose its international competitive edge. We have seen the American farm base begin to disintegrate. Once dominant exporters of grain and a broad variety of food products to the world, we are now losing markets as less developed countries work toward self-sufficiency or more developed countries devise artificial and unfair tactics to protect their home farmers. And we have seen, most tragically, the loss of jobs. These are not only statistics, these job loss numbers, these are human beings. Jobs have not only been lost in numerous industries region by region but have been lost coast to coast. It is of no comfort to an unemployed textile worker or steel mill worker or machine tool worker that we have seven million more people at work today than we had in 1979, when two million manufacturing jobs have been lost during that same period. Most severely:

Illinois	324,000 jobs lost.
Pennsylvania	287,000 jobs lost -- This in a state that first saw its coal mining base slip away and is now shutting down its blast furnaces.
Ohio	270,000 jobs lost.
Michigan	240,000 jobs lost. [1]

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[1] Greenhouse, Steven, "The Industrial Belt Searches For Ways To Retool Its Image," New York Times, (August 18, 1985).

Job loss and job gain are not sectional specific. From industry to industry, from Boston to Boise, from New York to California, the ranks of the newly unemployed or soon to be unemployed swell. Most recently, for instance, the following companies have presented us with this discouraging news:

Texas Instruments	2,000 jobs lost.
Commodore Electronics	3,000 jobs lost in one year.
Apple Computer	1,200 jobs lost.
Data General	1,300 jobs lost.
Intel Corp.	1,000 jobs lost.
United Technologies	2,000 jobs lost.
Clarke Equipment	600 jobs lost.
Amfax	1,500 jobs lost.
Goodyear	650 jobs lost.
Sprint	600 jobs lost.
Greyhound Lines	1,500 jobs lost
Union Carbide	4,000 jobs lost.
Lone Star Steel	3,000 jobs lost.

Textile and apparel jobs lost in the second quarter of this year alone:

The State of South Carolina	3,000 jobs.
Georgia	1,800 jobs.
North Carolina	400 jobs.
Tennessee	600 jobs.

And just within the last weeks we hear that the Ford Motor Company intends to lay off 10,000 people within the next two years and that AT&T is planning to reduce its work force by 24,000 people in the next two years. 34,000 jobs lost!

We have seen our ship building industry practically disappear and with that jobs lost. We are living with the continuing consolidation going on in steel and with that jobs lost. Trouble in lumber, in tobacco farming, in copper mining and on and on and more and more jobs lost.

A Clear Understanding of the Problem is Critical to its Solution

It seems to me that we have no choice as responsible Americans as to what course of action to take. First we must really understand why, as a country, in industry after industry we have either lost the market or had it taken away from us. Have we been completely victimized? Is everybody, especially the Japanese, to blame? Or must we undergo a period of agonizing self-analysis to understand what we can and should do differently. Which industries are undergoing structural global changes so that, wish as we may, they will never be the same again -- just as the introduction of new materials cuts down on total demand for steel, just as the development of fine glass conduction cuts down the apparent market for copper. Which industries will need fewer workers as technology increases productivity with lower labor costs? When robatics are introduced into U.S. denim plants the need for human hands diminishes. These are facts of life, unpleasant, but facts of life nonetheless. We cannot legislate away the effect of higher productivity through plant modernization and the consequent loss of jobs.

We have a responsibility to those whose jobs are lost, these people who through no fault of their own, find themselves jobless. Generally, they comprise the least mobile, the least skilled, the middle years in age segment of our population and, consequently, the most readily discouraged. With the loss of their jobs, very often whole communities lose their vitality and eventually their reason for being. How did we get here and what can we do about those dispossessed Americans who are paying the price?

We must create and maintain an economy that is vibrant and growing. We must systematically begin to replace older, less desirable jobs with the newer and more rewarding work opportunities. Finally, we must provide the necessary training and assistance in adjusting to these changes for those workers displaced.

Does the legislation before us move in a direction consistent with these imperatives?

The Textile and Apparel Trade Enforcement Act of 1985 - Serious Misconceptions

S.680 was introduced as a response to the loss of market and loss of jobs in the domestic textile and apparel industries. Its laudable purpose is to rectify certain aspects of the 1981 Multi Fiber Arrangement that have created import imbalances, that have encouraged island and country hopping and that have led to fraudulent practices and quota circumvention. S.680 fails to solve these difficult problems. The authors of S.680 claim that fairness in dealing with less developed countries or non-major exporters was a primary consideration in drafting the bill. The authors of S.680 argue that it permits imports from less developed countries to increase 15% over their 1984 levels. What those who wrote and those who support the bill neglect to tell us is that this is true only for those categories of apparel that:

1. Are considered non-sensitive, and
2. Those categories with specific restraints limits.

The important categories such as women's and men's shirts and pants, women's dresses and skirts, blouses and sweaters, and many others are considered sensitive. They are not a part of the growth package. For most non-major exporters many textile and apparel categories are not quantitatively restrained, but are a part of the consultation call system. Thus the new specific restraint levels mandated by the formula used in S.680 are being set on an extremely low performance base.

Consequences for Developing and Developed Trading Partners - Unjustifiable Inequities

Indonesia, consequently, loses 85% of its current export base, Pakistan 66%, Brazil 66%, the People's Republic of China 57%, Thailand 55%, Taiwan 47%, the Philippines 38% of its major categories, Korea 33%. Perversely, because of their long apparel producing history, Japan loses only 18% and Hong Kong 14%.

Consider, for instance, a few startling consequences of these cut backs. China from 331,462 dozen in synthetic dresses is cut back to 15,453 dozen and whereas cotton dresses were formerly unrestrained, the new mandated limit would also be 15,453 dozen. Cotton skirts are cut back from 174,158 dozen to 62,889. For most exporting countries these kind of cut backs affecting those categories in greatest demand are the rule rather than the exception.

Now maybe these unilateral cut backs in exports of struggling countries, some with crushing debt structures such as the Philippines, Brazil and Korea, are intentional. I find that hard to accept. The fully industrialized countries of Europe are completely exempt from any kind of export restraint. Also exempt is Canada, Canada with whom we run a trade deficit second only to our deficit with Japan. Not only is there no moral justification for the further impoverishing of the already impoverished, it is self-defeating. Apparel and textile exports from the EEC have increased drastically this year! More and more apparel facilities are being upgraded and expanded from the exempt countries. As long as the dollar does not dramatically readjust, we can expect this repositioning to continue. If fear of the phenomenal productivity potential of the People's Republic of China motivated the 1980 base formula of S.680, a lot of innocent bystanders are being severely wounded in the process.

An Import Permit System - Illogical, Unworkable, Unnecessary - The Need For Full Development of AVVS

Next the bill mandates an import permit system, vague in form but specifically the responsibility of the Commerce Department. The rationale here, evidently, is to provide certainty for importers and to prevent fraud. The Commerce Department, with over 35,000 employees now, with responsibility for activities as diverse as Travel & Tourism, the Weather Service, and the Bureau of Standards; the Commerce Department, accused by the framers of S.680 of mismanaging our current trade agreements, accused of permissiveness and of lacking the will to rigorously enforce those agreements is the government agency asked to devise and manage an import permit system. The number of textile and apparel import entries per month is 125,000. The number of quota charges per month is 300,000. It is difficult to accept that the purpose of S.680 is to create another bureaucracy of monumental size and inefficiency.

Walter Lenahan, Deputy Assistant Secretary for Textiles and Apparel at the Commerce Department, in his testimony before the House Subcommittee on Commerce, Consumer and Monetary Affairs, responding to a question concerning import growth due to difficulties in enforcement of existing bilateral agreements said, "In 1983 an automated visa verification system was developed so that we could effectively compare foreign government documentation with U.S. import documentation to better monitor trade and stop fraudulent activity." Thus far the system is in place with Taiwan but the lack of funds and personnel has stymied the further development of the program. An intense effort to fully implement the program is underway. Secretary Baldrige has committed himself before various committees to developing the AVVS controls with other countries with whom we have trade agreements. Resources must be made available to proceed.

Silk, Linen, Ramie, Blends Thereof - A Need for Distinctions

The third major departure from the current arrangement is to bring non-restrained fibers such as silk, linen and ramie under restraint. Previous testimony has certainly been vocal enough as to the lack of a silk or linen textile industry in the United States because of the relatively high price of woven silk and woven linen. Both luxury fabrics, their part in the growth of imports of non-MFA fibers is negligible. The rapid growth through the fourth quarter of 1984 and the first two quarters of 1985 has been in knitwear, mainly ramie, often blended with carded cotton, an inexpensive yarn that came into its own because it has the aesthetic of all cotton and thus burgeoned as an innovative response to last years new country of origin regulations. The great increase in imports of ramie/cotton sweaters is an issue which the Administration is very aware of and should properly be dealt with at Geneva.

Irrespective of whose import penetration figures one uses for 1984, whether it be those of the Greenville News, 23%;[2] or the Los Angeles Times, 20% market penetration in apparel and 6% in textiles;[3] or those of the Commerce Department which shows all textile and apparel at 21.5% or apparel alone at 26.4% of domestic consumption, it is significant to note that the recent infusion of non-MFA fiber imports, largely in sweaters, would bring that penetration up by approximately another 8%. It is also significant to note that for those who have extrapolated from 1984 import figures, exports of all fibers from Asian nations declined during the first half of 1985. Only Hong Kong showing an 8% increase, with China down 14%, Taiwan down 6% and South Korea down 5%.

The EEC on the other hand, exempt from the provisions of S.680, showed an increase of 37%.

Unilateralism - An End To Trade Negotiations?

What is perhaps the most potentially damaging effect of S.680 is the tearing up by the United States of 34 separate trade agreements just as the new MFA negotiations are getting underway. This would represent the unilateral imposition by the legislative branch of the richest and strongest country in the world of new and onerous trade restrictions.

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[2] Foust, Dean, "Milliken Spearheads Textile Ad Campaign," Greenville News, (April 20, 1985).

[3] Los Angeles Times, (May 22, 1985).

Next to the overriding issue of war and peace it could well be that the single most important issue facing the United States and the free world through the rest of this century and well into the next is the issue of global economic interchange. S.680, because it forecloses negotiations, because it encourages trade anarchy would have long-term negative results, the dimensions of which are incalculable and unpredictable.

The Perception of Executive Malaise - Is Free Trade An Anachronism?

Despite its fatal flaws we sit here in an atmosphere so passionately charged that S.680 and who knows how many other of the 300 bills dealing with trade may very well be passed in this session. We are angry at the Administration for its apparent lack of a long-term trade policy to deal with the growing trade deficit, to deal with trade barriers against our products, to deal with dumping, subsidization, targeting, predatory pricing. We are angry with the Japanese for capturing such a large part of our market in product areas we once considered exclusively ours. We are angry with the Japanese, the Koreans, the Taiwanese, the EEC for selectively protecting certain of their industries and products while the United States is expected to be the only free trader in the world. In textiles and apparel alone we accept 42% of all imports from the world's developing nations.[4]

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[4] Quote from an interview with Ambassador Charles Carlisle, Women's Wear Daily, (August 6, 1985)

Is it not reasonable to expect Japan and members of the EEC to participate with us in absorbing some of these imports? Of course it is! That is what tough trade negotiations are all about!

Lumber, cement, carbon black, neckties, tobacco, tuna, roses, rifles, telescopes, vinyl flooring, semiconductors, telecommunications equipment, soda ash, bicycles, shoes, ammonia products, copper, steel, tin, iron, ferro-alloys, pasta, ethanol, New Zealand veal, machine tools, wine, petro chemicals, fresh atlantic fish, mushrooms, water beds. All products to protect or be protected against. As to a strategy or lack thereof, legislators have been quoted in the press as follows:

"I don't know what the action will be but I doubt it will be responsible."[5]

and another --

"Congress will pass protectionist legislation if markets don't open up even though we would just hurt ourselves."[6]

and another --

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[5] Rowen, Hobart, "Bonker Warns of Trade-Deficit Backlash," Washington Post, (June 11, 1985), Representative Don Bonker, State of Washington.

[6] Auerbach, Stuart, "French Minister Says Exports Won't Be Cut," Washington Post, (May 15, 1985), Senator Alan Simpson, State of Wyoming.

"We can't go on the way we are -- eventually the system will collapse. In the meantime we may enact some dangerous legislation."[7]

and another --

"We will be shooting ourselves in the foot but we also will be shooting them in the foot."[8]

and another --

"The international trading system as it exists today is malfunctioning. Unless the system is made to work it is doomed. The Smoot-Hawley Tariff Act did contribute to the Great Depression. To repeat the same mistake less than half a century later would be an act of great stupidity."[9]

An issue of such staggering importance to the economic well-being of the entire world threatens to become a political football. That would be a tragic occurrence!

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[7] Farnsworth, Clyde, "Tide of Protectionism In Congress, New York Times, (July 3, 1985), Representative Sam Gibbons, State of Florida.

[8] Browning, E.S., "U.S. Congressmen 'Frustrated' After Talking Trade With Japan," Asian Wall Street Journal, (July 3, 1985), Representative William Goodling, State of Pennsylvania.

[9] Garten, Jeffrey E., "America's Retreat From Protectionism," New York Times, (June 16, 1985), Senator John Danforth, State of Missouri.

Job Gain/Job Loss - A Balanced Look At Employment Statistics

And so S.680 has become as symbolic as real, has become a stalking horse for the venting of our frustrations. As previously stated, job loss is not strictly a regional problem. Just as the counterbalancing phenomenon of job gain varies regionally. For instance, Massachusetts, once the home of a significant textile and shoe industry after years of painful readjustment, had the lowest jobless rate of the country in July -- 4.4%. North Carolina, at a 5.4% unemployment rate, is expected to create 84,150 new jobs in 1985 despite the loss of 9,900 jobs in the non-durable goods manufacturing sector.[10] New Jersey and New York both came in well under the national unemployment rate of 7%, according to newly released figures for August, New Jersey at 4.4% and New York at 6.1%. Illinois at 8.8%, Ohio at 9.9%, and Michigan at 10.9% remain well over the national average.[11] Net employment growth for the state of Georgia is expected to total 139,000 jobs this year.[12] All non-agricultural employment in South Carolina at the end of the last fiscal year was 53,000 higher than at the end of the previous fiscal year, which means a gain in jobs of more than five times the number of lost textile and apparel jobs.[13] South Carolina's unemployment rate of 6.7% at the end of July also remained under the national average.[14] The state of New York has had a net gain of 377,600 jobs since 1979 topped only by California, Texas and Florida.[15]

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[10] "Economic Gain Seen For North Carolina," Charlotte Observer, (May 30, 1985).

[11] Department of Labor Statistics, Charlotte Observer, (August 3, 1985).

[12] Walker, Tom, "82,000 New Jobs In 1985, 4% Annual Growth Are Forecast," Atlanta Constitution, (August 12, 1985), Donald Ratajzak, Director of Georgia State University's Economic Forecasting.

So the news is far from all negative. If anything, the regional job loss and job gain statistics would indicate that, with the exception of the twice traumatized state of Pennsylvania because of coal and steel, the leading textile and apparel states, New York, North Carolina, South Carolina and Georgia are adjusting in the aggregate to the structural changes taking place in their economies.

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[13] Morris, Earle, (State Comptroller), "Economy Let Down State Expectations," Greenville News, (August 11, 1985).

[14] Monroe, Jenny, "States Jobless Rate Tumbles to Five Year Low," Greenville News, (June 27, 1985), Jack Davis, Director of the State Employment Security Commission.

[15] New York Times, (August 29, 1985), Samuel Ehrenhalt, Regional Commissioner of the Federal Bureau of Labor Statistics.

The Domestic Textile/Apparel Complex - Past Protection Has Created a Non-Competitive Domestic Mind-Set

But irrespective of favorable aggregate statistics we must still deal with plant closings and job loss. The framers of S.680 consider imports to be the villain of the piece. They believe the solution to the problems of plant profitability is to restrict imports. This has proven to be a delusion in the past, starting in 1932 with cotton fiber price supports and quotas, in 1956 through 1964 with cotton subsidies that made exported cotton 25% cheaper to foreigners than to U.S. users, to 1957, the year of the United States/Japanese bilaterals on cotton textiles, to 1961 and 1962 when the short-term and long-term arrangements regarding international trade in textiles stimulated the rapid growth of offshore polyester/cotton production, and, consequently, man-made fiber imports increased 1200% during the period of 1964 to 1971, to the 1971 arrangements with Hong Kong, Japan, Korea & Taiwan on wool and man-made fibers. None of this encourages any confidence that the passage of S.680 would have any positive effect on the market relevance of the domestic textile industry in the future. With all of the talk about past capital investment our textile weaving sector still has a long way to go. Of the 200,000 looms in place last year, only about 30% are of the modern shuttleless variety.[16] European and Japanese looms are three to four times faster than American machines, many of which are now being junked. Typical of what happens to an old mill that cannot be refitted with modern equipment is the closing of Springs Mills 92 year old Springsteen Mill in Chester, South Carolina because it would shake apart from the pounding of the new equipment. Even though most of the workers moved to another Springs plant, 125 jobs were lost to technological upgrading.[17]

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[16] Schmidt, William E., "U.S. Textile Industry Dresses Up To Counter Foreign Competition," New York Times, (July 15, 1985).

The Fourth District in South Carolina, a district which includes Greenville, Spartanburg and Union Counties, has lost 5,000 textile jobs since 1980 according to the Daily News Record of July 17, 1984. The article continues -- "One analyst predicts that more textile plants in this district will close, but not necessarily because of imports." "The district has a lot of old textile mills," says Doug McKay, Administrator of Research and Statistics for the South Carolina Development Board, "and you look at the plants that are closing. They are old textile mills, closing because of consolidations."[18]

Plants, just as other business, languish for many reasons -- poor management, poorly conceived capital investments. Just as millions of dollars went into double knit and warp knit equipment in the late 60's and

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[17] Scott Kilman and Linda Williams, "The New Mill", Wall Street Journal, (September 20, 1984).

[18] Burritt, Chris, "Import Issue A Hot Topic In South Carolina Congressional Race," Daily News Record, (July 17, 1984).

70's, because the knit boom was "here to stay." How many of us are wearing polyester leisure suits today? How many women are wearing patterned polyester pant suits today? Imports did not shut down the Jonathon Logan Spartanburg factory. It was poor decision making. And imports did not make the leisure suit irrelevant. The marketplace did. Just as the Crompton Company, one of America's oldest weavers, paid the price for misreading the market, and I quote from the New York Times of November 21, 1984, "Mr. Lord now acknowledges that it was Crompton's reluctance to change its basic two product mix, along with its failure to diversify and its refusal to market aggressively that left the company vulnerable to competition from abroad." "Crompton was definitely in the wrong position in the wrong product line at the wrong time," agreed Jeffrey Edelman, an analyst at Dean Witter.[19] The Daily News Record of February 19, 1985, in describing the closing of J.P. Stevens' Piedmont, South Carolina mill stated, "Although the company blamed the 'devastating effect' of low cost imported fabrics for the fate of the Piedmont plant, sources noted that the facility is an old multi-story mill that would be extremely expensive to modernize."[20]

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[19] Hollie, Pamela E., "Crompton's Nemesis: Imports," New York Times, (November 21, 1984).

[20] "J.P. Stevens' South Carolina Mill To Close, 165 Jobs Cut," Daily News Record, (February 19, 1985).

Former members of the New York merchandising staffs of both United Merchants and Manufacturers and Riegel Textiles would expand upon the reasons for the closings of the UM&M Old Fort Mill and Bath Mill and Riegel's closing of its Ware Shoals facility; poor management, poor equipment mix, antiquated and market irrelevant machinery. When obsolete plants are closed, when robots and modern equipment replace people, the relationship of the events to imports is indirect. The relationship to the need to be competitive both domestically and internationally is direct. Similarly, overcapacity inevitably creates shake outs, just as the textile industries' rush into denim in the late 70's did.

Bill Hervey, President of Blue Bells Wrangler Menswear Division was quoted as saying, "John Travolta climbed on a mechanical bull and America went crazy buying westernwear. Everybody then geared up to try and meet the demand and acted as if it was here to stay. It was strictly an aberration that lasted for two to three years."[21] Clearly the impact of cheap imports on the denim market, relevant though they are, does not remove the onus of poor market judgement from our textile managers. Lester Hudson, President of Dan River Mills, speaking at a seminar on world market development last April said, "We think we can compete on a world scale in manufacturing textile fabrics even though wages are lower in some countries. Labor rates become less important when labor becomes a smaller percentage of total costs. Labor, for example, represents less than 10% of the total cost of denim."[22]

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[21] Foust, Dean, "Fickle World of Fashion Means Gamble for Textile Industry," Greenville News, (February 24, 1985).

Capital Investments - Machinery Cannot Replace Market - Directed Management

Indeed our textile industry has made large capital investments over the last three decades. Mentioned earlier was the rush in the 70's to double knit and warp knit equipment. As John Wilcox, a consultant in the Greensboro, North Carolina office of Kurt Salmon has said, "The textile mentality is you can invest your way out of anything. There's been too much investment on technology and not enough on total business."[23] Laura Dean of Wertheim & Co. agreed, "Larger companies became obsessed with machines that produced goods wider and faster and didn't assess their role in future markets."[24] Robert Gregory, Jr., President of V.F. Corp. stated, "We have more capacity to serve them than there are demands. Even before the recent import surge, textile companies were geared up to produce 20% more denim for jeans than consumer demand warranted."[25]

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[22] Daria, Irene, "Exec Says Short Run Production Growing," Women's Wear Daily, (April 10, 1985).

[23] Foust, Dean, "Modernization: A Blessing Or A Burden?" Greenville News, (February 25, 1985).

[24] Ibid.

[25] Foust, Dean, "Analyst - Demand For Textiles Has Slowed," Greenville News, (February 26, 1985).

Just as in any other industry, or any company within any industry, the marketplace becomes the final arbiter and all of the protective legislation in the world will not help an industry that is geared to long runs, that stresses efficient production of commodity product at the expense of short runs, flexibility and fashion relevance -- to a mill mind-set rather than a customer mind-set. Robert Gregory, Jr. went on to say, "I think the ultimate secret of survival in this business is that people are going to have to spend less time in Washington and more time with the consumer, finding out where the business is and adapting to it."[26] Dame Hamby, the Dean of the School of Textiles at North Carolina State University adds, "We must stop depending on Washington to solve our problems. We must objectively assess our situation and take steps to turn ourselves around. And most of all, turn around our attitudes that someone else needs to solve our problems."[27]

Current Realities - Why Are Our Textile Managers Buying Imported Machinery - An Example of Desirable Equipment Dominating A Market

Past industry protection has in effect encouraged foreign adjustment not domestic adjustment. It has encouraged foreign competitors to continually shift to higher added value products. From cotton yarn, to cotton fabric, to cotton shirts and pants, to polyester/cotton blends in fabrics and apparel and so on. We have encouraged the shift of production to new countries. We have created a market awareness and flexible approach to products abroad but not at home.

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[26] Foust, Dean, "Analysts Say Industry's Problems Go Beyond Imports," Greenville News, (February 24, 1985).

[27] Clune, Ray, "Textile Leaders Told To Get Rid Of Negativism," Daily News Record, (February 25, 1985).

The innovativeness and diversity of consumer oriented fabrics available in Europe and Japan, but not available in the United States, is what has led my company to purchases of non-domestic fabrics. There is a parallel here with the position taken by textile industry management in the case of purchases of foreign textile machines. According to the Commerce Department it is estimated that imports had grown to a 42% share of the U.S. market at the end of 1984.[28] Our most modern textile plants have become dependent on West German, Swiss, Japanese and other foreign machine exporters. "Where we can find it here we buy it here. Whenever we have the opportunity to buy comparable machinery, we buy in America," stated Burlington Chairman William Klopman.[29] However, Dale Ormsby, Burlington's Richmond Plant Manager, couldn't find it here and Japanese water jet looms were purchased because no U.S. machinery makers produced the high-speed machines. "We don't have a choice," he said. "It's not between a Toyota and a Ford. The Ford isn't available."[30]

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[28] Matthews, Steve, "Textile Firms Often Buy Imported Machinery," Charlotte Observer, (April 22, 1985).

[29] Ibid.

[30] Ibid.

Do Something - Anything!

Macro-economic issues that involve considerations of national security and the long-term economic health of the free world must be considered in the most politically neutral atmosphere possible. Instead millions of dollars are being spent, not only by the textile/apparel group but by the retail group as well, to influence both the general public and members of the legislature. How much better served the national interest would be if those dollars were spent on all parties working together to solve our common problems while assisting those who are suffering job and income loss. The creation of a fortress America mentality such as existed in the early 1930's can only bring out the least humane and most paranoid qualities of our national psyche. Our frustrations are understandable, but the position that poor legislation is better than no legislation irrespective of how flawed or self-damaging is the equivalent of saying that any medicine is better than no medicine irrespective of how toxic or self-damaging. S.680 is toxic medicine!

Meeting The Challenge - The Only Alternative To Crippling Trade Wars

There are other routes to go. My company for one is in the process of exploring some of those routes. We have started a constructive dialogue with the International Ladies Garment Workers Union for the purpose of job creation. We are encouraging a number of our offshore suppliers to open both stitching and knitting operations in the United States with a guarantee that Liz Claiborne will provide them with continuous work. We are working closely with top management of a number of our domestic textile firms to broaden their product lines and to create, along with them, product that we feel will be appropriate for their marketplace and ours. In all cases, all parties have demonstrated, without exception, a high degree of cooperation and openness. There is no question in my mind that our long-term interests are mutual. We want to shape those jobs that are consistent with a modern textile and apparel capability and to help put people back to work.

We are simultaneously funding a study at the University of South Carolina designed to examine some of the key issues associated with the industrial-to-service transition currently occurring in the state with a focus on the textile/apparel complex. There is another study of similar issues that we have committed funds for that is being planned at the University of North Carolina. It is our aim to come up with actionable programs which all affected groups will participate in -- textile companies, large retailers in the area, labor, and the appropriate state authorities.

As Lynn Williams, President of the United States Steel Workers of America said recently, "The issue is not change, but whether change will occur constructively restoring our industries to health while caring for the needs of those who have been wounded."[31]

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[31] Williams, Lynn R., "The Road To Industrial Rebirth," New York Times, (September 2, 1985).

Job Retraining - Job Relocation - Income Protection

We must certainly design a trade adjustment policy that is not "short-term and compensatory but long-term and adaptive."[32] Senators Bradley, Chafee, Grassley, Heinz, Kerry, Moynihan, Roth and Symms have all urged the extension and reformation of such a policy. Many states have now created their own innovative programs typified by the approach of the state of California's employment training panel financed by unemployment insurance. There are successful programs in which labor and management have been working together such as the Nickel Fund established in 1982 by the United Automobile Workers and the Ford Motor Company.[33] Senator Bradley has introduced the concept of the "job security bank" to be funded by a small import fee of 1% on all products from all countries. Management of the Brown & Williamson tobacco plant in Petersburg, Virginia in conjunction with local labor unions and backed by a grant from the Federal Government's Joint Training Partnership Act instituted a job search program to cushion the blow of its planned plant closing at the end of this year.[34] There is a growing awareness that we all have a responsibility to those who have become victims of the restructuring of our economy.

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[32] Webster, Gloria, "U.S. Textile and Apparel Dilemma; A Policy Overview," Harvard University, (1984).

[33] Serrin, William, "Jobless Workers Learn New Skills," New York Times, (April 7, 1985).

[34] Stone, Peter H., "Tobacco Company Helps Cushion Blow of Plant Closing," Washington Post, (September 8, 1985).

The New York Times, in a forceful editorial, stated it clearly, "A prudent and humane society should neither resist change nor cast aside its victims."[35]

Balanced Responses

We must reexamine our assumptions about the world we live in. While the attempt to create scapegoats may lead us to dangerous actions, we must also avoid a sense of defeatism and self-recrimination. Trade has become, as Arthur Dunkel, Director General of GATT has said, "managed."[36] We have every right to protect ourselves from unfair trade discrimination, particularly in the case of fully developed and newly industrialized countries. Not only in our own interest, but in the broader, long-term interest of our trading partners we must insist on reciprocity. We must also feel free to use those tools used by our competitors to further our competitiveness, tools such as industry subsidization and tax incentives. As Senator Bradley said in his testimony before the Joint Economic and House Foreign Affairs Committee on April 30th of this year, "Tough enforced trade negotiations can change unfair trade practices." We must continue to insist that the Executive Branch use every legitimate means at its disposal to open markets for our products. But while insisting that markets be more open to our products, we must assume the burden of tailoring products where required to those markets. We must become hard knowledgeable sellers.

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[35] "Our Debt To The Displaced," New York Times, (April 1, 1985).

[36] New York Times, (September 2, 1985).

A Basic Problem of Competitiveness - A Non-Competitive Educational System

We must reexamine our educational system. What should we require in the way of language skills, of knowledge of other peoples and their cultures? Governor Riley of South Carolina, in the face of strong opposition from numerous industry leaders, nevertheless, managed to get a 1% increase in the state sales tax. The South Carolina Education Improvement Act of 1984 was responsible for the upgrading of high school students' performance on the Comprehensive Test of Basic Skills to a point more than 150% greater than the state required. To a large extent a report issued two years ago by the United States Education Department called "A Nation At Risk" citing the "mediocre educational performance" of many United States public schools stimulated the pressure for the passage of Governor Riley's program. North Carolina, despite the dramatic promise of the Research Triangle, must soon come to grips with its secondary educational problems. A recent study by Alexander Grant & Co., Chicago based consultants, shows North Carolina 43rd among the 48 contiguous states in the number of high school educated adults. 13.1% of the state's population cannot read.

Clearly we have our work cut out for us. In addition to upgrading secondary school education, there are perplexing statistics concerning the emphasis we put on professions. "For every 10,000 people in Japan, only one is trained as a lawyer and 3 are trained as accountants, but in the United States for the same 10,000 people we train 20 to be lawyers and 40 to be accountants."[37] While on the other hand, according to Derek Bok, President of Harvard University, "In Japan, a country only half our size, 30% more engineers graduate every year than in all the United States."[38]

Deficits - Currency Imbalances - New Partnerships - National Priorities

We must also come to grips with our high budget deficit, a major cause of the too strong dollar. Not only does the strong dollar out price many of our products in foreign markets but it causes a growing gap between U.S. wage rates and those of other nations despite recent evidence of pay restraint in the United

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[37] Schlossstein, Steven, Trade War, New York, New York: Congdon & Weed, Inc., 1984. 296 pp.

[38] Ibid.

States, "Where the pay gap was once nonexistent -- as in Sweden -- it is now substantial. Where once narrow -- as in West Germany -- it is now very large indeed."[39] Unfortunately, productivity gains have not been sufficient to offset the disparity in labor costs. This is not to suggest that more and more give backs are in order. Perhaps we should consider a new approach to the relationships that exist between labor and management. The new GM Saturn program or the success of the ESOP program at Weirton Mills would indicate the value of a close partnership between management and labor.

The budget remains a statement of our national values and priorities and we are continually faced with the choice of how we spend the wealth created by our citizenry. As we spend more and more on weapons, so much more proportionately than any of our trade partners, we further weaken our ability to be competitive.

Exporting - The Need for Reexamination of Policy

Perhaps the time has come to reevaluate our national position as to the numerous roadblocks we throw up against exports. Former Senator Howard Baker notes, "It may well be time to reconsider the prohibition on sales of Alaskan North Slope oil to Japan."[40] Similarly, it may also well be time to tally the costs of cargo-preference, cotton subsidies, the use of trade as a political weapon, our anti-trust laws and the effects of divestiture on competitiveness, and our rather rigid approach to the export of products and technology that fall within the definition of "militarily sensitive."

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[39] Malabre, Alfred L. Jr., "High Wages Hurt U.S. In World Markets," Asian Wall Street Journal, (July 31, 1985).

[40] Baker, Howard H. Jr., "Time For A Truce In The Japan Trade War," New York Times, (August 21, 1985).

Positive Action - Individual States Devising Aggressive Self-Help Policies

Governor Lamar Alexander of Tennessee has demonstrated the job creating value of aggressively courting foreign investment. The State of Michigan brought the Japanese firm Hi-Lex Group, a subsidiary of Nippon Cable, to Battle Creek after years of strenuous wooing and has created 500 jobs and will soon double that number.[41] Two Japanese manufacturing companies are creating jobs in Peachtree City, Georgia.[42] The reopening of the Westinghouse Electric plant in Elmira, New York in conjunction with Toshiba will create 800 new jobs.[43] Governors of states throughout the United States are acting vigorously and independently to reinvigorate their industrial base. They need federal participation.

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[41] Lehner, Urban C., "Welcome Invasion," Wall Street Journal, (May 10, 1985).

[42] Elmore, Charles, "Two Japanese Companies Are Locating New Operations In Peachtree City," Atlanta Constitution, (July 18, 1985).

[43] New York Times, (June 2, 1985).

Throughout it becomes apparent that without a game plan in which the Federal Government plays a supporting role the future of our total industrial plant may be compromised. Despite the fact that conservative estimates predict a growth of 7 million jobs in the next 4 years[44] and that our ability to create new jobs has been the envy of the world, an industrial strategy for the future is demanded.

On the Brink of Trade Chaos - S.680 Brings Us To A Point of No Return

We have been and continue to be leaders in breakthrough technology. We are richly endowed with natural and human resources and we have demonstrated time and time again that there is no conflict between generosity and self-interest.

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[44] Data Resources Inc., New York Times, (September 5, 1985).

The passage of S.680 will bring us to a point of no return in international trade.

It discriminates against developing Asian countries in favor of developed European countries.

It threatens international political stability.

It will undermine the international banking system.

It invites further closing of foreign markets to our goods.

It demands no assistance for the jobless.

It requires no quid pro quo of industry.

It deludes us into an acceptance of our failure to compete as solely an external circumstance.

Whatever the political pressures of the moment, however deep the desire for a quick fix, we must resist in the interest of our country and of our world.

STATEMENT BY MARTIN TANDLER, PRESIDENT, TANDLER TEXTILES, INC., NEW YORK, NY

Mr. **Tandler**. Good morning.

I am president and owner of Tandler Textiles, Inc., a New York based firm which specializes in the sale of high quality fabrics to designers like Liz Claiborne, Ralph Lauren, Brooks Brothers, et cetera.

During the last 15 years I have been, I think, in the unique position of sourcing much of our fabrics both in the United States and in Asia and Europe as well. As a result, I would like to share with you some of the observations I have made which I think are relevant to your consideration of S. 680.

First, there are literally hundreds of fabrics which cannot be made in this country. In my testimony I have enclosed samples of three of them which look like fairly simple, straightforward fabrics—you have copies of them—but because of spinning, weaving, and dyeing capabilities simply cannot be made here. This is not a question of price; it is a question of quality. And it is the type of quality that my customers demand.

Second, U.S. mills, as Mr. Ortenberg just pointed out, are entirely production-oriented. They make what they can make and are much less interested in what the consumers demand. They are run primarily by the people who own them in the South and leave the marketing as a secondary, unimportant kind of position.

Third, it is interesting to note that U.S. mills and converters in the textile industry themselves import huge quantities of textile themselves. They do this to make up for deficiencies in their own production; they do it because of price; they do it because of quality. Sometimes they have inherent imbalances in their own plant structure which they have created themselves—they have too much finishing capacity and not enough weaving capacity—so that they contribute a great deal to this trade deficit which they decry themselves.

The U.S. textile industry does compete fairly successfully on some basic market cloths and, given a currency situation which would be more favorable to them, could compete in the world marketplace on these more stable commodity items.

It has been mentioned that other markets are restrictive in their imports or their receptiveness to American products. I have never observed this.

Take the case of Japan. Japan would be, in my opinion, open to import American fabric if America made fabric worthy of import to Japan. Europe does import a great deal of fabric to Japan.

In conclusion, I am committed to the improvement of the American textile industry. The U.S. textile industry today enjoys tremendous protective duties already, and it has other competitive advantages, including raw materials, proximity to the market, et cetera. Increased duties and/or quotas will not encourage U.S. firms to make higher quality fabric; quite the contrary, it is U.S. consumers, retailers, garment workers, importers, brokers, and others in import-related fields whose jobs and wallets need protection.

One last point in reference to Mr. Chafee's question: Most of the textiles that my company does import into this country are made in garments here. If we cannot import the fabrics here, all the people who make the garments will lose their jobs.

Thank you for your consideration.

Senator **Danforth**. Thank you, Mr. Tandler.

Mr. Farah.

[Mr. Tandler's written testimony follows:]

Summary Statement re Hearing on S.680
September 23, 1985

Submitted by Martin Tandler
Tandler Textile Inc.

I. Tandler Textile Inc. - An American textile company, annual sales of $40 million. Design and sell high quality cotton fabric to U.S. apparel manufacturers.

II. Desire to purchase U.S. goods - Customers use fabric in U.S. Prefer to avoid numerous problems of international trade.

III. Need to purchase up to 80% of fabrics outside U.S.

A. Lack of capital investment and short-sightedness of management has resulted in product and process inferiority in the U.S. textile industry. U.S. mills cannot meet quality specifications available in Europe and Japan (at any price).

B. Mass production orientation in U.S. precludes the ability to provide necessary flexibility and quick response.

IV. Domestic textile industry already highly protected

V. Job loss substantial - Jobs will be lost with higher tariffs in import industries as well as support industries (brokers, transporters, U.S. garment manufacturers).

VI. Lack of export of textiles to Japan - Due to inferior quality and higher price of U.S. goods, not to Japanese restrictions. Japan does import from Europe.

VII. Currency Exchange - A lowering of the relative value of the dollar will help U.S. mills to be more competitive with imports on lower-priced goods. There will be little or no effect on higher-priced fabrics.

VIII. Conclusion - The demand for high-quality fabric in the U.S. cannot be supplied by U.S. manufacturers. Lack of import of these fabrics will cut supply and jeopardize jobs as well as raise prices to the American consumer.

Written Statement for Submission to the Finance Committee's Subcommittee on International Trade

Regarding the Hearing on S.680
The Textile and Apparel Trade Enforcement Act of 1985

September 23, 1985

Submitted by Martin Tandler
Tandler Textile Inc.

I am the sole owner and President of Tandler Textile Inc., a Delaware Corporation, headquartered in New York City with a subsidiary office in Los Angeles. The Company's annual sales volume is $40 million.

We are in the business of designing and buying fabrics for sale to high-quality manufacturers of women's and men's clothing. Our clients include hundreds of apparel manufacturers including those which manufacture the finest and highest quality clothing offered in the United States (Ralph Lauren, Calvin Klein, Anne Klein, Brooks Brothers, L.L. Bean, Talbots, et.al.).

My experience has been mainly in designing and marketing high quality fabric, much of which is 100% cotton. Tandler Textile owns no production facilities and as a result purchases goods wherever they can be best made. We prefer to buy goods made in America whenever possible because most of our customers manufacture their garments in the U.S. However, approximately

80% of our production is imported, mostly from Japan. This lopsided percentage in favor of imported goods is due largely to the fact that the quality of Japanese fabric is so far superior to its American counterpart that often there is no comparison.

I have tried to work with the best American textile mills for years, begging and pleading that they produce goods to meet my clients' quality specifications. I would of course, prefer to avoid the need to import fabric (and thereby also avoid the attendant risks and problems of international trade). The best mills in America have consistently refused my requests. They have informed me repeatedly that they cannot and will not produce fabric of the quality of that which I am currently importing from Japan. Even offering to pay two to three times the price I am paying the Japanese mills, the answer from the United States mills is no.

I have enclosed 3 samples of our fabric with this statement. (See attachments.) These are 3 types of fabric which, in spite of how simple they appear to be, are not available in the U.S. at any price. As stated above, I have discussed my needs with many of the largest and highest quality domestic textile producers. They do not have the interest nor the ability to supply these goods. They have not developed the flexibility to fill the needs of my Company - which needs are those of the fashion industry in general.

In addition to the inability to make comparable quality, U.S. textile mills make other demands which make doing business domestically extremely difficult. U.S. textile mills demand larger minimum orders, offer fewer colors, rarely make exceptions to their "standard operating procedure" and even make financing and credit procedures more difficult than Japanese or European textile people. I have been a party to hundreds of examples of these practices which have been going on for years and which continue today. These conditions are best summarized by American textile executives themselves who issued the following statements in the September 18, 1985 issue of Women's Wear Daily:

> "Mills must pay closer attention to what their customers want by becoming more fashion and product development conscious." (Thomas J. O'Gorman, President, Greenwood Mills Marketing Co.)

> "I don't think manufacturers or mills have been creative enough either from the product standpoint of from the process standpoint. . . The industry is scared to death. It's a self-fulfilling prophecy - we're not giving the consumer something to buy." (Bertram C. Shlensky, President, Apparel Fabrics Division, WestPoint Pepperell)

Tandler Textile is sympathetic to the difficulties of the U.S. textile industry and is committed to its prosperity and survival. We have in the past and will continue in the future to attempt to work with U.S. producers. However, in order for us to do so, U.S. textile producers need to, as they themselves acknowledge, put their house in order.

In addition the domestic textile industry is already one of the most protected industries in the U.S. in terms of tariff and quota protection. More than 650 quotas from 31 countries have been established. Per the Reagan administration, the average textile and apparel tariff equals 22.3% versus an average tariff of less than 5% for all other industries. With tariffs already more than 400% higher than average, it makes sense that there must be other reasons imports continue to be a viable alternative to domestic production. Yet in spite of all these advantages, the U.S. textile industry cannot compete successfully in its own market with respect to high-quality fabrics.

To limit further Tandler Textile's ability to purchase these high-quality fabrics will not in any way insure or result in the production of these fabrics by U.S. mills. It will result in lost business for Tandler Textile and its network of supporters (brokers, transporters, warehousers, etc.) and our clients (U.S. garment manufacturers). In other words, it will result in lost revenues and lost jobs.

Regarding the effect of currency on the import of fabrics into the U.S., it is my experience that the relative high rate of exchange for the dollar does not very much affect the import of high-priced quality fabric. It does, however, have more of an effect on mass-produced, lower quality fabric. I conclude, therefore, that if the value of the dollar should fall, it is probable that large U.S. textile producers will fare better against Far East and other off-shore competition. However, fabrics of high quality such as the ones my Company imports will continue to be imported because they simply cannot be produced in this country.

It is also claimed by many that U.S. companies cannot compete with foreign textile companies because wages abroad are so much lower than U.S. wages. This is true for many lower quality fabrics (although as mentioned above, there are counter-balancing advantages which U.S. companies enjoy). It is not true for high quality fabrics produced in Japan and Europe where workers make comparable wages to their U.S. counterparts.

Lastly, there has been much talk about alleged unfair trade practices with respect to availability of other markets to U.S. goods. In my area of expertise, I can state with certainty that both Japan and Europe are open to U.S. textile products but do not import them because they are inferior to fabrics they produce themselves. To illustrate this point, I cite the example of Nino A.G., one of the largest textile producers in Germany, which company exports 400% more fabric to Japan than it does to the U.S.

In conclusion, the U.S. textile industry has demonstrated to me time and time again that it cannot produce high quality fabric irrespective of price. There is a demand for high quality fabric and to curtail the supply of this fabric will cause loss of jobs and revenue in the "top quality" end of the textile industry in the United States.

STATEMENT BY ROBERT FARAH, EXECUTIVE VICE PRESIDENT, AND PRESIDENT, INTERNATIONAL DIVISION, FARAH MANUFACTURING CO., INC., EL PASO, TX

Mr. **Farah**. My name is Robert Farah. I am executive vice president of Farah Manufacturing Co., which is a public company listed on the New York and Pacific Stock Exchanges. Farah is a manufacturer, an importer, and an exporter, and employs a little under 6,000 individuals internationally.

For over 60 years and well before it became nationally fashionable, Farah has been a proponent of "made in the USA." In fact, we fought several legal battles with respect to a policy we have of hiring U.S. citizens. Nevertheless, Mr. Chairman, I am here to speak today in opposition to S. 680.

We believe this bill is wrong. We believe this bill is the wrong solution to an overpublicized, overmarketed problem. The bill is discriminatory with respect to companies participating in production-sharing arrangements under the Tariff Schedule of the United States item 807.

As has already been stated here today, the present trade deficit is a symptom of the economic problems of the United States and not a cause. The budget deficit, the strong dollar, and U.S. savings are the principal causes of the present import problem, if there really is a problem. The cost to the consumer of existing quotas and tariffs, as has also been stated here today, are substantial.

Let me go through a sequence of events resulting from the implementation of S. 680:

First, we believe there would be a reduction of efficient supply. Second, that would translate to an increase in prices not only to the retailer but to the ultimate consumer, resulting in a drop in demand and ultimately a loss in jobs. Every State in the Midwest, Mountain, West, and Southwest regions of the United States would experience more retail and other job losses than textile and apparel manufacturing job gains. Does enactment of S. 680, which is limited to a particular industry in a very limited number of States, really make sense?

S. 680 provides for an import-licensing system which as of yet is undefined. This will not only institutionalize, we believe, the inequities existing or that would exist regarding precisely who may import but would establish a more onerous environment for our industry.

Farah is the single largest importer of 807 apparel in Mexico, yet the largest part of it is United States labor—80 percent or so. Only sewing labor is added in Mexico. Passage of 680 would stymie this positive incentive to consume U.S. product.

For these reasons I would have to say that Farah would strongly support legislation that Senator Gramm of Texas is proposing at this time, and we feel that that is the positive sort of incentive that needs to take place in any legislation rather than what we believe is the destructive incentive that exists in S. 680.

Thank you, Mr. Chairman, for allowing my opposition.

Senator DANFORTH. Thank you, Mr. Farah.

Mr. Clayton.

[Mr. Farah's written testimony follows:]

Testimony of Robert Farah,

President, International Division

Farah Manufacturing Company

My name is Robert Farah. I am an Executive Vice President of Farah Manufacturing Company and I am President of the company's International Division. Farah is a public company listed on the New York Stock Exchange and Pacific Stock Exchange which sources product from domestic manufacturing from what is known as Tariff Schedule of the United States Item 807.00 production sharing, and from direct imports. Although Farah manufactures a number of apparel products, its primary product is mens, young mens and boys slacks.

Farah employs over 3300 individuals domestically and a total of over 5900 internationally and is one of the principal employers in El Paso, Texas, where its major facilities are located. For many years, and before it became nationally fashionable, Farah was a vocal proponent of "made in the U.S.A." Indeed, Farah fought a number of legal battles in order to protect its policy of hiring U.S. citizens. In recent years, however, Farah has expanded its international operations both as an exporter of U.S. products and in sourcing. Farah has become a believer in the benefits of both free trade and production sharing.

Thank you, Mr. Chairman, for allowing me to appear before you today to speak in opposition to S. 680, the "Textile and Apparel Trade Enforcement Act of 1985." Farah believes that this Bill is the wrong solution to an over-publicized and over-marketed problem. This Bill discriminates against companies participating in production-sharing arrangements under TSUS Item 807.00, and enactment of this Bill will have long-term detrimental effects on both the apparel and textile industries.

The initial publicity surrounding S. 680 was highly misleading, and thus a number of U.S. apparel manufacturers, some of which appeared before this Subcommittee, were at first unsure of their position. Because of this confusion, some of these manufacturers only recently truly understood both the content and ramifications of the Bill. The very substantial sums expended by the coalition supporting this Bill had their effect in creating a misconception concerning the Bill. Nevertheless, it is hoped that "cool heads" will indeed prevail and that this nation will not take what is now argued to be only a short considered step - but what will actually result in a very long and unsteady step that would cause severe harm not only to the apparel and textile industry but also to the entire U.S. economy.

Let me briefly review a number of facts that have been discussed with this Subcommittee - but which are believed by Farah to have significant importance, and then spend a short period discussing those specific areas of concern in which Farah has particular interest.

Fact:

The Multi-Fiber Arrangement was designed to assist in resolving the precise issue that is now before this Subcommittee. The Arrangement will shortly be renegotiated, and any anticipatory action such as S. 680 would abrogate well over 30 bilateral agreements to which the U.S. is a party. Farah believes this is not responsible conduct for the acknowledged leader in the world market place. Are we not acting prematurely?

Fact:

The present trade deficit is a symptom of economic problems in the U.S. and not a cause. The budget deficit, the strong dollar and savings are the principal causes of the present import "problem" - if there really is a problem. The question before this Subcommittee must be, "has any responsible economist said otherwise either in print or to this Subcommittee?"

Fact:

Protectionist legislation such as S. 680 will most assuredly invite retaliation. Such retaliation will not only affect the apparel and textile industry but a number of other U.S. industries as well. How can we realistically not expect retaliation when we roll-back textile and apparel imports from countries such as Brazil - 66%, China - 57%, Thailand - 55%, Taiwan - 47% and Pakistan - 36%? Do we really believe that no action will be taken when we significantly reduce the ability of these countries to obtain dollars? Particularly in countries such as Brazil, which has a very substantial U.S. debt, would we not be preventing dollars from being obtained by a country that would only use those dollars to reduce U.S. debt?

Fact:

The apparel and textile industries are currently two of the most protected industries in the U.S. Why should these industries be singled out for further special treatment? The cost to the consumer of existing quotas and tariffs is already substantial - in the many billions of dollars. The sequence of events which would result from the implementation of this Bill would be as follows: (1) the reduction of efficient supply (2) the increase of prices (3) a drop in demand for such supplies (4) the decrease in demand for support industries and finally (5) a loss of jobs. Surely no reliable economist has testified that an overall net gain in U.S. jobs would ultimately result from enactment of S. 680. Responsible commentators indicate that every state in the midwest, mountain, west and southwest regions of the U.S. would experience more retail and other job losses than textile and apparel manufacturing job gains. Does enactment of a protectionist trade bill, the alleged benefits of which are not only limited to a particular industry, but to a small number of specific states, really make sense?

Farah has a number of specific concerns regarding S. 680. These include:

Import Licensing Requirements.

The Failure to Consider TSUS Item 807.00 Imports.

The Extreme Roll-back for Mens and Boys Man-Made Fiber Slacks.

The Misleading Representations Regarding Mexico and the Caribbean Basin.

Turning first to:

Import Licensing Requirements.

S. 680 provides for an import licensing system which as yet has been undefined. This will not only institutionalize inequities regarding precisely who may import, but will also establish a more onerous regulatory environment for the apparel and textile industry. The Bill provides that the Department of Commerce will establish and administer an import licensing system under which all importers of textiles and textile products would be required to present an import permit at the time of entry. Various import permit allocation methods that have been discussed include an option system that requires importers would be required to bid for permits and a lottery system that enforces a "grandfather" clause based on previous import levels. How does this government plan to tell a particular manufacturer what textile and apparel products it can import and in what quantities? Would retailers get a preferential "edge" due to direct sourcing? How does any textile or apparel company prepare a business plan in excess of one year when it doesn't know whether it will lose a "bid" or make a bad "draw" in a lottery? How are allowances made for large and small companies, new and old companies, honest and dishonest companies? Is the government or really the market place the proper place for these decisions?

The Failure to Consider TSUS Item 807.00 Imports.

There is absolutely no concession in S. 680 to TSUS Item 807.00 imports. As you know, TSUS Item 807.00 principally involves the assembly of U.S. components in other countries through production-sharing arrangements. The proposed roll-backs and artificial limits imposed on further imports contained in S. 680 are fully applicable to TSUS Item 807.00 imports that are to be sold in the U.S. TSUS Item 807.00 production sharing has become a significant component of our industry. Farah is the single largest importer of TSUS Item 807.00 apparel from Mexico. This apparel is manufactured almost exclusively from components made in the U.S. Essentially, the only value added is sewing labor. But for the availability of production sharing quota in Mexico many of these apparel items would simply be contracted off-shore, without the use of U.S. fabric, thread, buttons, zippers and other trim items. Because of U.S. imposed quota restraints no additional U.S. owned "maquila" or twin plant production facilities have been established in Mexico in over a year. Mexico has expressed to Farah that it is extremely concerned that the vast majority of its apparel "exports" are really U.S. in-bond imports that simply have value-added labor. Approximately 80% - 85% of the value of TSUS Item 807.00 Farah imports are actually the reimportation of U.S. product. How can the textile and trim manufacturers complain when substantial quantities of their products are being used in such production-sharing arrangements? Passage of S. 680 would stymie further growth of an industry that provides a "positive" incentive for the use of U.S. manufactured products. Does this really make sense?

The Extreme Roll-back for Mens and Boys Man-Made Fiber Slacks.

Certain categories of apparel and textile products would be affected much more significantly than others. Under S. 680, imports of mens and boys man-made fiber slacks from the 12 major exporting countries would be reduced by 50%. Why mens and boys slacks? Why are there not similar reductions in other categories? This provision points to a critical defect in the Bill in that the category reductions and roll-backs are based solely on existing export levels that are the result of previous negotiations pursuant to the Multi-Fiber Arrangement. These levels have no reasonable relationship to apparel market categories in the U.S. which are particularly affected.

The Misleading Representations Regarding Mexico and the Caribbean Basin.

Much of the recent growth in apparel exports in Mexico and the Caribbean Basin countries has been directly due to expansion of TSUS Item 807.00 activity by U.S. companies. The publicity given the Caribbean Basin initiative has also had its effect. This growth has been substantially in excess of the 6% cap per year contemplated by S. 680, and indeed due to the "import sensitive" nature of a number of these categories, a cap of 1% would be applied. Remembering that U.S. components that are utilized principally in these off-shore operations and that approximately 80% of these countries' exports fall under TSUS Item 807.00, does it really make sense to artificially limit the use of U.S. components? The answer is quite obviously that it does not. Mexico and the Caribbean Basin are simply not net exporters of indigenous textile and apparel products as the findings of S. 680 would appear indicate. Without U.S. participation, both in terms of technology and "in-bond" components, the apparel industries in these countries would not have blossomed as they have in recent years.

In summary, Farah believes that a number of the facts that have been presented to this Subcommittee simply cannot be refuted by the coalition supporting S. 680. Moreover, Farah has very specific concerns regarding licensing, TSUS Item 807.00, the extreme roll-back on mens and boys man-made fiber slacks, and the inaccuracies projected regarding Mexico and the Caribbean Basin. Discussion of these concerns will hopefully be considered by the Subcommittee when it reviews this Bill in a calm and rational environment and that the members of this Subcommittee will conclude, as we do, that this Bill must be rejected. Thank you again, Mr. Chairman, for allowing Farah to speak in opposition.

STATEMENT BY D. MICHAEL CLAYTON, DIRECTOR, LEGAL SERVICES AND CORPORATE SECRETARY, SAMSONITE CORP., DENVER, CO

Mr. CLAYTON. Thank you, Mr. Chairman.

Samsonite is an American company that produces and sells luggage in the United States and throughout the world. We employ about 2,600 American employees. Samsonite is celebrating its 75th year in the domestic and world luggage markets. We manufacture luggage in the United States and 11 other countries in the world, and export to virtually all countries in the free world. As an exporter, we have encountered and dealt with the full range of foreign trade barriers to American-made goods that are similar to those that are in the proposed legislation.

No doubt others have or yet will testify regarding the economics of this proposed legislation, as Senator Gramm did earlier, so I will not go into detail here other than, as background, to remind us all that shutting the door on the imports as this bill would do does not affect the cost of producing the corresponding product in America; it just reduces the supply of the competitive goods, so, as the market shrinks, it drives up the consumer's price.

However, unless the American market shrinks far enough to drive up the price by about 67 percent, not a single new American job, at least in the luggage industry, can be created. If the prices cannot rise high enough to cover the cost to produce the goods in

America, then the only other way to create American jobs is to reduce the cost of the American product—that is, to lower the cost of material, the labor, or the overhead. Certainly, nobody will sell a product for less than the cost to produce it, much less hire anyone else to make it. However, a viable, lower cost alternative to total U.S. production is already in use. This is called coproduction.

Coproduction basically involves the production of the components of a manufactured item here in the United States, the shipment of those American-made components overseas where further processing takes place, followed by importation of either the finished item for resale or for further processing in the United States. Coproduction has been recognized as a manufacturing strategy for over two decades. Sections 806.30 and 807 of the tariff schedules, as Mr. Farah has mentioned, recognize coproduced goods as basically American-made goods, requiring payment of import duty only on the value added in the assembly operations overseas.

It has been estimated that American jobs tied to coproduction grew from 17,000 in 1970 to about 75,000 in 1980, and, as Senator Gramm earlier testified, the estimate is about a million today.

The fabric components and hardware used in Samsonite's coproduced luggage is made in the United States. Some of these components are shipped offshore for assembly. The finished product, when imported into the United States, can compete effectively on a price basis with wholly foreign-produced goods at about 10- to 15-percent higher than the comparable foreign goods.

By imposing quotas on all imported goods, the proposed legislation would also impose quotas on imported coproduced goods from American components. The proposed legislation would eliminate or dramatically reduce employment of Americans producing components now being used in coproduced goods.

An exemption of goods assembled abroad from U.S. components from the quota, however, would preserve these American jobs and can be expected to create additional American jobs in the coproduction area to take up the slack caused by the blockage of other foreign imports.

We request, therefore, that the quotas in the proposed legislation not be applied to coproduced goods; that is, products which are imported under items 806.30 and 807 of the Tariff Schedules of the United States.

Thank you.

Senator **Danforth**. Thank you, Mr. Clayton.

Mr. Davis.

[Mr. Clayton's written testimony follows:]

EXECUTIVE SUMMARY

TESTIMONY BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
UNITED STATES SENATE

September 23, 1985

Presented by Mr. D. Michael Clayton
Director of Legal Services & Secretary
on behalf of Samsonite Corporation

Mr. Chairman and Members of the Subcommittee:

Samsonite is an American company that produces and sells luggage in the United States and around the world. We employ over 3,000 American workers. Samsonite has about 75 years of experience in the domestic and world luggage markets. We manufacture luggage in eleven countries, and export to virtually all countries in the free world. As an exporter, we have encountered the full range of foreign trade barriers to American-produced goods.

Besides producing domestically and overseas, Samsonite engages in a manufacturing strategy known as coproduction. Coproduction basically involves the production of the components of a manufactured item in the United States, the shipment of those American-made components abroad for final assembly, followed by importation of the finished items into the United States for sale. Coproduction has been a recognized manufacturing strategy for over two decades. Sections 806.30 and 807 of the Tariff Schedules recognize coproduced goods as basically American-made goods, requiring payment of import duty only on the value added in the assembly operations. It has been estimated that American jobs tied to coproduction grew from 17,000 in 1970 to 74,533 in 1980, the last year for which data is available.

Samsonite manufactures the fabric and hardware used in its softside luggage in the United States and ships some of these components for assembly offshore. The finished product, when imported into the United States, can compete effectively on a price basis with wholly foreign-produced goods.

By imposing quotas on all imported goods, the proposed legislation also would impose quotas on imported coproduced goods made from American components. The proposed legislation would eliminate or dramatically reduce employment of Americans producing components now being used in coproduced goods.

An exemption of goods assembled abroad from U.S. components from the quota, however, would preserve these American jobs and can be expected to create additional American jobs in the coproduction area to fill any market vacuum that would be created by import quotas.

We request, therefore, that the quotas in the proposed legislation not be applied to coproduced products, that is products which are imported under Items 806.30 and 807 of the Tariff Schedules of the United States.

TESTIMONY BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
UNITED STATES SENATE
SEPTEMBER 23, 1985

Presented by Mr. D. Michael Clayton
Director of Legal Services & Secretary
on behalf of Samsonite Corporation

Mr. Chairman and Members of the Subcommittee:

In the International textile trade war, the Textile and Apparel Trade Enforcement Act will be a shot heard around the world! For this reason, we respectfully request Congress to raise its sights above America's foot.

Samsonite is an American company that makes and sells luggage domestically and around the world. We employ 2,444 Americans in domestic production and sales, 89 in so-called coproduction, 62 in import trade, and 36 in export trade. We produce luggage in eleven countries, and sell in virtually all countries of the free world. In most countries, Samsonite is the foreigner, exporting into the local market. As such, we have dealt with protectionist measures as proposed in this Bill, ranging from exceptionally high duties, to quotas and outright prohibitions.

The Bill is presently aimed at America's foot, because it eliminates more American jobs than it is possible to create, and it requires the American consumer to pay dearly or this net reduction in American jobs in the hidden tax of increased prices. It is intended to create American job, but so long as this Bill would apply quotas to goods made by coproduction, as it now does, it cannot create new American jobs.

Please note that Samsonite speaks about 75 years of experience in the domestic and world luggage industries. Although the absolute numbers will vary from one luggage maker to another and from one industry to another, the economic principles will remain the same. So in general, the result for other luggage makers and industries would be expected to be comparable.

I will discuss coproduction after first explaining why we believe this Bill cannot create new American jobs. The reason is simple economics either the prices paid by each of us as American consumers must increase to cover the cost (labor, material, overhead) of producing in America products comparable to the excluded foreign products, or these production costs themselves must be reduced. Certainly, nobody will sell a product for less than the cost to produce it, much less hire someone else to make it.

In our experience, we have found that an imported textile bag which would cost the American consumer $65.00 at retail, would cost $109.00 if made in a low labor cost area of America. Please keep in mind that the absolute dollar values are not as important as the relative costs of imports versus American-made goods. Shutting the door on imports, as this Bill would do, does not affect the cost of producing the corresponding product in America ... it just reduces the supply of competitive goods. That is, the market shrinks, driving up the consumer's price.

However, unless the American market shrinks far enough to drive up the price by about 67% (in my example, to the $109.00 level), not a single new American job can be created. Also, in the luggage business, non-textile alternatives (plastic luggage) becomes very competitive at and before the same $109.00 level ... further regarding creation of American jobs in the textile luggage industry.

If prices cannot rise high enough to cover the cost to produce the goods in America, then the only other way to create American jobs is to reduce the cost of the American product ... lower the cost of material, labor, or overhead. After 75 years, we believe we have reduced these costs as far as possible ... but we would certainly welcome any help from Congress in reducing them further. You can probably agree, however that our suppliers and employees would rightly oppose any such action by Congress.

So why does this Bill shoot America in its foot, and how can Congress raise its sights?

By imposing quotas on all imported goods, the Bill also imposes quotas on imported goods made from American components.

Therefore, in addition to eliminating American jobs associated with import trade (transportation, sales, etc.), the Bill also eliminates American jobs which produce American components now being used in imported goods. This area is known as "coproduction," and has been recognized by Items 806.30 and 807 of the Tariff Schedules for over two decades. American jobs tied to such coproduction have grown from 17,000 in 1970 to 26,000 in 1975, to 74,533 in 1980 (the last year for which I have data).

Besides producing domestically and overseas, Samsonite also coproduces using American components (such as textiles). Certain production steps are done in America (e.g., raw material, manufacturing, such as textiles and component manufacturing), and other steps (usually labor-intensive assembly) offshore. The resulting product, although 10 to 15% higher in price than the comparable product without American components, is still competitive enough ($76.00 vs. $65.00 for example), that it can be sold domestically against comparable imported products.

Congress can raise its sights by not subjecting products made from American components to the import quotas of this Bill.

Why? Because otherwise, not a single American job will be created by this Bill, yet American jobs making components (textiles, for example) will actually be eliminated. Excluded goods made from American components would preserve American jobs, at a lower price to the American consumer ($76.00 vs. $109.0). As a bonus, at the lower price, the American market demand can create more American jobs in the coproduction area to fill the void left by import restrictions.

By not excluding coproduction goods from these quotas, Congress shall require by enactment of this Bill:

(a) elimination of existing jobs in the import, coproduction, and component supply areas, and then,

(b) as a precondition for the creation of even a single additional American job (at least in the textile luggage industry), either:

  (i) payment by American consumers of about 67% higher prices.

  (ii) drastic pay cuts for American workers, or

  (iii) greatly reduced prices for American materials.

We propose that the quotas in this Bill not be applied to coproduced products, that is products which are imported under Items 806.30 and 807 of the Tariff Schedules of the United States of America.

STATEMENT BY CARL K. DAVIS, EAST COAST COUNSEL, NIKE, INC., PORTLAND, OR

Mr. DAVIS. Mr. Chairman, Senator Chafee, I am Carl Davis, east coast counsel for Nike, Inc. I have previously submitted written testimony. I would like to summarize that now, but would ask that the entire written statement be included in the record.

Senator DANFORTH. You don't even have to ask; it is done automatically.

Mr. DAVIS. Thank you.

Nike, Inc., is a U.S. company headquartered and incorporated in the State of Oregon. At present we directly employ approximately 4,000 Americans. We manufacture, import, export, distribute, and sell athletic footwear and apparel not only in the United States but on a worldwide basis.

Nike is tremendously concerned about the far-reaching aspects of this measure. My testimony today consists of three major points.

First, touted as a measure to protect apparel and textile manufacturers, the bill will also—by design or mistake—include textile-style footwear.

Recently, the International Trade Commission conducted a 201 investigation concerning footwear. The petitioners could have included textile footwear but did not, as there is no indication that domestic manufacturers of such styles need or want this protection. Even the prolog to this measure is void of any discussion of injury to this group.

The type of footwear is often sold to low-income families and for children's use. Because of these reasons, it should be excluded from this measure.

Second, though claiming to be protective, the bill as written is devastating to many categories of imports. Nike, Inc., is a large importer of jogging or warmup suits. At present these suits are covered by quota restrictions under two different categories—one covering jackets, the other trousers.

Under this system, Nike must compete with importers of higher priced items such as ski jackets and dress slacks to obtain sufficient quota to import these suits. This measure is so restrictive that future imports of such items could be impossible. For example, the quota available for warmup suits from Hong Kong would be slashed by 46 percent on jackets, 62 percent on pants. Children's warmups from Singapore by an incredible 89 percent. Such cuts apply to the entire quota category. Higher priced items such as ski jackets would take all available quota. Our warmup business would be eliminated.

Third, and most importantly, price alone is not the primary consideration that drives an American company like Nike to seek apparel sources offshore.

When Nike first entered the apparel business, we sourced 100 percent of our apparel in the United States. As our business grew, we found it increasingly difficult to deal with the inflexible attitude of many domestic apparel manufacturers.

Manufacturers demanded minimum order amounts for each fabric or color before they would produce items for us. These minimums were often so high that it was impossible for a company engaged in the competitive sports apparel business to extend their purchases to those limits. To do so would have required the elimination of certain styles or colors. Other manufacturers refused to produce items to our specifications, requiring that our items be produced by one of their age-old techniques.

Confronted by these problems, we sought new sources. We found those sources offshore, where the producers were much more flexible and would agree to our requests. We would like to do more business in the United States, but it is not feasible.

In summary, passage of this bill will basically eliminate a major portion of our apparel business and the resultant jobs in that business.

Thank you very much for your consideration.

[Mr. Davis' written testimony follows:]

TESTIMONY OF CARL K. DAVIS
EAST COAST COUNSEL OF NIKE, INC.
BEFORE THE INTERNATIONAL TRADE SUBCOMMITTEE
OF THE SENATE FINANCE COMMITTEE
SEPTEMBER 23, 1985

Mr. Chairman, I would like to thank you and the rest of the members of the Subcommittee for having the opportunity to present my company's view on this most urgent issue of import relief.

Nike, Inc. is a U.S. company whose home office is based in Beaverton, Oregon. Nike manufactures and distributes on a wholesale and retail basis athletic footwear and sports related apparel. The company employs approximately 4,000 persons and has annual sales revenues approaching $1 billion. Approximately 20% of our sales revenues are derived from the company's apparel division. The apparel line is produced by a combination of both domestic and foreign apparel manufacturers. Consequently, like many other companies in the apparel and footwear industries, Nike is an American company which functions simultaneously as a domestic manufacturer, purchaser, exporter and importer.

Mr. Chairman, I will focus my testimony on three major points:

First, let me state that Nike would prefer to purchase all of its apparel line from domestic sources. However, we continue to run up against many U.S. apparel manufacturers which are unwilling to adapt to changing conditions in our industry and increasingly unable to fulfill our apparel manufacturing needs.

Second, S. 680 covers a wide range of products beyond the textile field including products in the automotive, construction, furnishing and decoration, toy and footwear industries. This bill is advancing protectionism in a sphere of products which is much wider than the narrowly focused textile and apparel industry.

Third, the decrease in the quota levels set forth in S. 680 is far greater than required by the domestic textile industry and will likely result in an "overkill".

1. Nike Has Found The Domestic Apparel Industry To Be Inflexible And Unwilling To Meet The Changing Manufacturing Requirements Of Our Industry

At the time Nike established operations in the apparel business, we purchased 100% of our apparel products from U.S. manufacturers. Today we still purchase 60% of our apparel products from U.S. companies. Let me reemphasize that we would prefer to buy our apparel products from U.S. companies and we constantly attempt to locate suitable sources within the United States. However, we have found many domestic manufacturers to be extremely uncooperative and unwilling to adapt their operations to meet our design, volume and timing requirements. In short, these firms simply have refused to change from their age-old manufacturing practices to be responsive to our needs. Consequently, we have been forced to purchase an increasing volume of our apparel from overseas suppliers.

I am submitting as part of my testimony a report prepared by Nike's Apparel Production Scheduling Manager, Dave Taylor, describing some of the difficulties Nike has experienced in dealing with domestic producers. This was not produced to be used in this hearing. However, this log, as it were, is handwritten testimony to our continuing frustration in dealing with the domestic apparel industry.

One major problem which is reflected in the report and which we experience commonly is that some U.S. manufacturers repeatedly refuse to manufacture goods in accordance with our specifications. For example, one of the mainstays of Nike's apparel business is the fleece jogger or warm-up suit. In attempting to locate a suitable domestic source for these suits Nike was confronted by manufacturers who would produce the units only on circular knit machines and without inset side panels as requested by the designers. Basically those manufacturers told Nike to change their designs to meet the manufacturers' specifications or seek other production sources. The sports apparel market is extremely style conscious and competitive and as a result minor design changes can determine the success or failure of a product line. Forced to make the decision to change the design or seek other sources of production, Nike chose the latter. Foreign manufacturers were more than willing to meet our specifications fully and thus became the prime source of these suits.

Similarly, most U.S. manufacturers we have encountered impose strict conditions on the minimum volume goods which they will produce. For example, the minimum quantity of fabric which offshore producers are willing to dye is 1000 yards per color, while the typical domestic minimum volume is 6,500 yards. Similar uncompetitive minimum piece requirements are imposed in other fabric manufacture and apparel sewing applications. As I've stated, this in an industry where style and color demands change frequently; we are not in a position nor should we be put in a position to purchase large volumes and be forced to endure large inventories. Again, the foreign producers we deal with are more than willing to produce at volume levels which meet our requirements and needs. As Mr. Taylor's report states,

> ". . .for placket shirts (striped tennis shirts, leisure shirts), yarn must be dyed before being

> knit to the desired colors/designs. Domestically we must commit the minimum of 1500 yds. per colorway of a design compared to 600 yds. off-shore. At one yard/shirt we must purchase shirts or commit to fabric for 1500 shirts/colorway domestically; off-shore only 600 shirts/colorway.
>
> Again, in this case, tennis business is not staggering in volume and we try to stay just in front of the demand. In the weaker colorways a purchase of even 600 shirts can be considered large, so you can imagine what 1500 shirts/colorway means."

Third, we have experienced repeated problems with timely deliveries by several of our U.S. manufacturers. As the report clearly indicates, many U.S. suppliers used by Nike are notorious for being wholly unreliable in meeting delivery deadlines. Consequently, even with the additional time necessitated by shipment to the United States and delays in clearing Customs, foreign produced goods consistently reach Nike's distribution facility on a more timely and dependable schedule than do the domestically produced items.

In one particular instance Nike placed orders for a coordinating womens' short and shirt set with the shorts coming from an overseas production source and the shirts from a U.S.

manufacturer. The shorts, manufactured overseas to our specifications, arrived on schedule. When the shirts arrived two months late and in a different color than ordered, Nike had no choice but to cancel all orders it had received for the sets. In a business where seasonal and style changes are critical, routine delivery delays can be disastrous for the wholesaler/retailer.

Mr. Chairman, the domestic apparel industry has created many of their own problems. American apparel companies such as Nike have chosen to pay ocean shipping charges, encounter delays in clearing U.S. Customs, pay high duties and deal with manufacturing sources which can only be reached by long distance communications rather than deal with inflexible domestic apparel manufacturers. Price alone is not the only consideration that has forced apparel companies to seek foreign sources.

2. The Scope Of The "Textile Bill" Reaches Far Beyond The Textile And Apparel Industry To Many Other Product Areas

Despite the focus of S. 680 on the textile and apparel industry, the bill extends to many other product areas outside of the textile field and will have a far more harmful impact on the U.S. economy than many subcommittee members may be currently aware.

As written, S. 680 would include not only textiles and garments which are presently subject to controls, but would also include such diverse products as furniture, floor coverings, toys, headwear, luggage, trimmings, handbags and most importantly, from Nike's standpoint, non-leather shoes. Textile footwear is often lower-end footwear which is traditionally purchased by low income families and most often designed for use by children. I cannot believe that the drafters of this measure intended to include footwear such as this which would cause the resultant impact on American consumers who can ill afford price increases on these products.

The prologue to this bill, which details the problem faced by the domestic textile and apparel industry, does not mention shoes nor indicate in any manner that imported textile footwear is causing an adverse impact on the domestic shoe industry. In addition, the recent 201 investigation conducted by the International Trade Commission dealt only with the impact of leather footwear imports. While the petitioners in that case had the opportunity to request an investigation of all footwear, they chose to restrict the focus of their request for relief only to leather footwear. No one in the domestic industry has requested protection yet the authors of this bill, without stating any claim that protection is needed have, by design or mistake, included the textile footwear industry in the grasp of this bill.

3. The Quota Levels Set Forth In S. 680 Are Unrealistic

The new quota controls established by this bill would be devastating to a sports apparel company such as Nike. As I previously mentioned, one of the mainstays of a sports apparel company is warm-up suits. Presently, warm-up suits are imported under two different quota classifications; those including jackets and trousers, even though the suits are matched sets. Also competing for this same quota are importers of items such as ski jackets and dress slacks. One prime source for warm-up suits is Hong Kong. Under this bill the quota for mens' and boys' jackets from Hong Kong would be reduced by 46%. For trousers, the cut backs would amount to a staggering 62%. In Singapore the quota available for womens' and infants' warm-up jackets would be reduced by an unbelievable 89%. If quota levels are slashed on products such as warm-up suits, which for reasons stated above, cannot be domestically sourced, Congress is choosing to tell this American company to get out of the apparel business.

Conclusion

In conclusion, Nike, believes in the benefits of protecting an efficient and profitable domestic textile industry from unfair foreign competition. We must take issue, however, with protecting an industry which is no longer seems capable or desirous of meeting the needs of the customers which it serves. We urge this Subcommittee to reject the measure as presently written.

Purchases

Attached is summary of purchases for FY 85 by contractor, domestic + off-shore. I think there is a gross misconception as to how NIKE does business.

As you can see, at first cost we still purchase over 50% of our goods domestically.

If we can make a product domestically we do. Shipping times are obviously substantially shorter and it's much easier to pick up a phone and communicate with a domestic factory.

We go off-shore when we have to as illustrated in examples. I think we support the domestic industry to the extent we're able to

1093

MEMORANDUM

JUN 13 1985

TO: Dave Edwards
Judy Duggan
Eddie Gray
Kathie Collins
Dave Taylor
Tony Poplstein

DATE: June 11, 1985

FROM: Beth Corcoran

DEPT: Cost Accounting

RE: Contractor Purchases Report

See attached Year-To-Date Contractor Purchases Reports for the month ending May 31, 1985.

2/1/86
2/1/93

NIKE, INC. - APPAREL DIVISION
YEAR-TO DATE OVERSEAS CONTRACTOR PURCHASES
MONTH ENDING MAY 31, 1985

	FISCAL YTD	12 MONTH
IMPORTS	42188614	42188614
DOMESTIC	60116003	60116003
	102304617	102304617
IMPORTS	41.24	41.24
DOMESTIC	58.76	58.76
	100.00	100.00

Fabrication

Minimum dye-lots are much more reasonable in the fabrics off-shore vs. domestic. For example here are some comparisons and what each dye-lot yields for woven fabrics such as twill and poplin

DOMESTIC

6500 yards/color (minimum dye lot)
PANT (1.5 yds/pc) = 4300 pcs
DETAILED SHIRT (.8yds/pc) = 8100 pcs
BASIC SHIRT (.5yds/pc) : 13,000 pcs

OFF-SHORE

1000 yds/color (minimum dye lot)
PANT (1.5yds/pc) : 670 pcs
DETAILED SHIRT (.8yds/pc) : 1250 pcs
BASIC SHIRT (.5yds/pc) : 2000 pcs

We're in the fashion business, i.e. colors and styles change constantly. We can get stuck with a lot of fabric domestically if we drop out of a color and haven't utilized a full dye lot (and believe me, it has happened often; we have an excess fabric inventory of over $1,000,000 (due partly to the above).

In a typical fashion pant we try not to order more than 50-75 dozen/color at a time in a [illegible] to stay just ahead of the demand for the product, so unless the product/color carry for a while we end up with fabric. A style such as this will usually have six colors so domestically we have to commit to approx 39,000 yards of fabric right out of the blocks compared to 6,000 yards off-shore

Another example is yarn dyed knit fabrics for placket shirts (striped tennis shirts, leisure shirts). Yarn must be dyed before being knit into the desired colors/designs. Domestically we must commit to minimum of 1500 yds per colorway of a design compared to 600 yds off shore. At one yard/shirt we must purchase shirts or commit to fabric for 1500 shirts/colorway domestically; off-shore only 600 shirts/colorway.

Again in this case, tennis business is not staggering in volume and we try to stay just in front of the demand. In the woven colorways a purchase of even 600 shirts can be considered large, so you can imagine what 1500 shirts/colorway means.

In actual content of fabrics, fleece is an example where we have had problems domestically. The bulk of our fleece business utilizes [illegible] [illegible] fleece. Domestically the major fleece manufacturers run blend of poly/cotton and acrylic/cotton. To get the ~~true~~ grey heather effect and to improve the fabric characteristics (lower shrinkage, more durability) we run a poly/rayon/cotton fleece.

We approached domestic mills about doing this blend for several seasons. They were unwilling to accomodate us; as to make this blend would entail some development and retooling. They would rather walk away from the business that go to any effort to gear up a new product.

Because of this we started moving our fleece off-shore (Fall 83) in order to get what we wanted and by Fall 85 we make about 80% of our fleece off-shore.

In addition domestic fleece mills require huge production runs to make a style. Normally for one style we have to purchase a minimum of 800 dozen/style and 200 dozen/color in one production run (if we have 5 colors we have to order 1000 dozen in one shot). If we did run continuous styles and colors we could probably deal with these quantities, but since we are in a rapidly changing sector of the business there is no way we can deal with quantities.

of this nature.

In a nutshell off-shore manufacturers are more flexible in terms of fabrication and quantities than domestic manufacturers, and in the constantly changing part of the business we deal with we must go off-shore to get this flexibility.

Styling

Warmups are a major part of our business and there aren't a whole lot of contractors domestically who can make warmups.

The big fleece manufacturers do not make them because they are not geared to labor intensive items such as this. ______ has priced fleece warmups for us, but not in their USA plants; they prefer to do them in their Costa Rica operation.

And fabrication plays a role here as well. The majority of our warmups are in fleece and to get a suitable fabric we have to go off-shore anyway.

It's tough to be specific on this category. We do make warmups in the US where feasible, such as when a domestic fabric is used, but we have yet to find a volume manufacturer who can fit our needs and we have yet to find the domestic fabric supply in fleece and 87/13 that fits our needs.

Fleece separates, again a major part of our Fall business, don't fit into domestic manufacturing operations either. An example is the Malibu group which requires side seaming (for fit) and set in stripes. When presented to domestically fleece manufacturers they would only consider the program if we allowed them to change our design and patterns so that the goods could be manufactured as tubular goods with bulkly set on stripes. To get what we wanted we had to go off shore to avail of more flexible manufacturing capabilities.

Obviously price plays into the above on how much a manufacturer will do for you in terms of fashion work. Most domestic manufacturers will tell us up front that they can't or don't want to make certain types of items for us because they'll have to modify their production lines and don't feel they'll be competitive price wise in doing this. So tied into this is the flexibility issue. Again we go off-shore because manufacturers are more flexible and responsive to our needs.

Delivery

Problems arise here no matter where you make goods, but two examples that crunched us domestically occured on tennis shirts and basic fleece.

We used to make most of our tennis shirts at ________, domestically. We were stuck with the color minimums as illustrated in the Fabrication section, plus ___ depended upon a fabric mill to supply piece goods to them. For consecutive seasons it took nearly 6 months from order date to delivery of finished goods, partly because ______ was dependant on the fabric mill, which put no particular priority on our goods because our orders were much smaller than other customers; and partly because _____ had trouble making what we specified. They weren't flexible in their production.

In order to get the quantities we wanted in reasonable delivery times we went off-shore.

See letters to ___ in which we pushed them for delivery with little success.

In basic fleece we're at the whim of the manufactures. There are only 3-4 major fleece mills and they all run their own in-house programs as well. If business is good for their own merchandise, then obviously their contract work for people like NIKE gets pushed aside.

We have run major programs with for several seasons in basic items and have never been delivered on time. The excuses are numerous, and it may have been inevitable anyway for NIKE, but we have pretty much discontinued basic fleece items in our Fall 85 line because we could not deliver to our customers because ______ could not deliver to us. Ironically enough it appears ______ has no problem delivering their own brand to customers.

If we do basic fleece again in any volume we'll have to consider going off-shore to more reliable sources; sources that will give our production some priority.

See letters to ______ outlining delivery problems.

FILE

Apparel Division

October 11, 1983

Dear :

As Nike continues to grow, it becomes more and more important for us to maintain a high level of consistency and quality in our products.

We have in the past asked you to achieve certain quality levels on various fabrications that you produce for Nike. It is becoming increasingly evident that you can not or will not produce goods to our specifications, or our specifications are out of line. To the latter I would say that our standards are well within the fashion industry standards, so it must be one of the first two choices.

My purpose here is to emphasize the fact that we need and expect your full cooperation with regards to this problem. The people who are requesting fabric and garment samples from you for testing are doing so to help you achieve an obtainable level of quality for Nike production.

If you have any questions or problems with regards to our testing procedures or the results of our tests, please let me know. It is my intention that we communicate freely on this and other areas of concern.

Sincerely,

John R Woodman

John R. Woodman
Director of Domestic Productions
Nike Apparel Division

JRW/dm

cc:

Apparel Division

NIKE

October 25, 1983

FILE

Dear

shipped 659 dozen to us last week, leaving 2,238 dozen to be shipped by 11/15 as per our agreement. This means that you need to continue to ship to us at better than 700 dozen a week to meet your commitment. According to my calculations here this morning, you need to continue to ship at a rate of around 650 dozen a week on through 1/15/84 in order to be on time with December and January orders. Let me know if you disagree with this.

Best Regards,

NIKE, INC.

never made it

Larry Stephens
Contract Administrator

LS/km

cc:

FILE

Apparel Division

NIKE

January 5, 1984

Dear

continues to be caught in a late delivery situation on their shipments to Nike. According to my figures as of 12/30/83, r still owes Nike 1,257 dozen against the October/November orders, 1,238 dozen against the December orders, and 1,717 dozen against the January orders. Based on your shipping schedule of 1,000 dozen per week, this means you are running about two weeks behind in total against the January shipments. Obviously, any October, November and December orders are extremely late at this point.

[illegible]

The situation is even worse when we look at the mix of the shipments we have been getting compared to our needs. Steve Brrokshire was in your plant today with a very critical expedite list of several styles that are desperately needed to cover some of our commitments to our customers. It is imperative that we work to meet the needs of that list. Nike's patience with the late shipments out of , is now practically worn out and we must see some shipments of specific style color sizes or we're going to see the delivery of the entire Tennis line to our customers jeopardized again because of .

Please get personally involved with the expedite list from Brookshire and respond to me as to what can be done.

Regards,

NIKE, INC.

Larry Stephens

Larry Stephens
Contract Administrator

LS/dk

cc:

FILE

NIKE

Apparel Division

November 4, 1983

only 20% of what they said they could do

Dear .

Shipments to Nike from for the week ending 10/28/83 totalled 1,003 dozens, which is considerably short of the 6,000 dozen needed per week to be on time by 12/15/83. I am sure you will be prepared to outline the delivery schedule to the people in Beaverton next week. Let's stay in communication regarding this schedule on a weekly basis.

Best Regards,

NIKE, INC.

Larry Stephens

Larry Stephens
Contract Administrator

LS/km

cc:

Apparel Division

November 9, 1983

9 months after [illegible]

Dear

For the week ending 11/4/83, I show that shipped 2,866 dozen to Nike, which again is considerably short of the 6,000 dozen you need to be shipping. The shipments were spread out over eight different periods. This includes the month of May, June and July, which you maintained are closed out and complete. We are still looking for some "catching-up" type of shipments.

Please call if you have any questions.

Best Regards,

NIKE, INC.

Larry Stephens
Contract Administrator

LS/km

cc:

FILE

NIKE
Apparel Division

January 5, 1984

all note

Dear .

As of 12/30/83, we show that . still owes Nike some 6,950 dozen against November orders, 16,300 dozen against December orders, and 12,900 dozen against January orders. This represents some 32,000 plus that should be out of by January 15, if your deliveries are to be on time to us. It appears to me that the delivery situation at has deteriorated rather than improved over the last three months. It is extremely hard for us to understand how this can be happening with all the efforts that we are putting into this thing. Our patience is wearing very thin and shipments to our customers continue to suffer greatly because of poor shipping performance.

After all these many months and years, is there nothing that can be done to improve your deliveries? We must have some assurance - not just verbally - but in some more tangible way that [redacted] intends to deliver on time to us.

What must be done? We don't know what else to do. Please respond.

Regards,

NIKE, INC.

Larry Stephens
Contract Administrator

LS/dk

cc:

BEST COPY AVAILABLE

FILE

Apparel Division

November 23, 1983

Dear

I see that shipped just over 4,400 dozen for the week ending 11/18/83. This would be a substantial shipment except that there was little or nothing shipped the previous week. You still need to be doing better than 6,000 dozen a week to be caught up by January orders. There is no way you can catch up at the current rate of shipments. And they never did

Could you get back to us in writing as to how you think your delivery position should be by January 15th? Somehow, must get caught up on this shipping schedule. Please advise.

Regards,

NIKE, INC.

Larry Stephens
Contract Administrator

LS/km

cc:

Apparel Division

FILE

April 25, 1984

Mr.

Dear ,

Enclosed are a few recent examples of Billing/Shipping errors. These were passed on to me through our Receiving Department. The appropriate adjustments have been made.

Apparently, information reflected on the Contents Label often times varies from the invoice (see attached highlighted documents). These discrepancies prompt Nike to physically inspect 100% of your shipments. This only slows down the receiving process. cost tm. too

Any efforts to correct and/or clarify this situation are greatly appreciated. Please call me if I can provide additional information or assistance. I look forward to your response and help in solving these discrepancies.

Sincerely,

Dean Lambert

Dean Lambert
Production Scheduling

DL/lk
Attachments
cc:

Other examples of problems dealing with the big guys

BEST COPY AVAILABLE

NIKE

FILE

MEMORANDUM

1/31/85

Bob,

Another round of somewhat disturbing news concerning our fleece program with . has surfaced. Apparently on style #7905 Boys fleece pant (P.O. #27652) has neglected to sew up any size 'XL' - claiming that the spec's and B.O.M. 's they received from NIKE did not specify size 'XL' on them. — they did

This raises a couple of questions:
- How can our B.O.M 's go out minus important information?
- How can a Purchase Order that was cut in late September '84 for mid-December delivery that called for size 'XL' not raise any red flags from the . camp- especially during production of our order?
- Why are we just now finding out about this in late January through our own inquiry as to why no 'XL' had shipped ?

What is so frustrating about the whole program is that in prior checks on our production with . . everything was "on-time", "complete" etc...

It concerns me that . does very little to inform our people in the field of these types of problems until after the fact. If we are serious about meeting our deliveries and having a profitable relationship with '. I think we have to be in there digging and monitoring our production constantly ...

Let me know your thoughts and concerns.

Steve

FILE

February 19, 1985

Mr. Bob Rhen &
Mr. Steve Smith
Nike, Inc.
Apparel Division
8605 S.W. Creekside Place
Beaverton, Or. 97005

Dear Bob & Steve:

Thanks for taking the time to meet with last week. Per our discussions I have defined the ground rules again here so that we all understand what is required to make the program run as effectively as possible.

1. Forecasts: Nike furnishes seasonal forecasts showing projected usage in dozens by style.

2. Lead Times: Provided #1, minimum production lead time is ten weeks. Additional lead time of two weeks is necessary for printing. In the past, Nike has provided 30 day lead time on goods to be printed. This works well although the additional two weeks is still necessary in most cases.

3. Minimum dyelots. 200 dozen per color per style is necessary for production. In times past we have allowed 100 dozen dyelots for special circumstances and an additional 5% price increase. I think that we would all agree that this has not worked well because of fall-out by size. I would recommend that we abstain from using this approach unless absolutely necessary.

These are the basic guidelines. The supply agreement covers most of the other aspects of the formal relationship. I think we can all benefit greatly if we realize the necessary constraints. If you should have any questions about these guidelines please let me know.

Very truly yours,

Tried to get this down, but this confirms they would not cooperate

Summary

Price is undoubtedly a factor for going off-shore, and I don't think we can argue that point.

However other factors are of more importance such as fabric minimums, factory cooperation, flexibility in production, and so on. If all factors were equal we would do even more goods domestically. But they aren't so we need to go off-shore to get what we want. This is the primary reason nearly all fashion business has shifted off-shore. The big chain stores and mass merchants can run the volume necessary to manufacture domestically, but even without considering price, we can't. Many ~~of our~~ programs just don't fit into domestic production systems.

Also, I still feel that the import licensing proposal is of equal or more importance to us. We will be hurt by quota roll-backs but I think we can sort through this problem in the long run.

There is no way we could survive an import licensing scheme. Delivery of our goods is crucial since styling changes so often, and delays would choke us [illegible]

Senator **Danforth**. Gentlemen, thank you all very much. In 1982 and 1983 there was a significant surge in imports of textiles and apparel. Why was that?

Mr. **Reed**. I would like to answer that. I think, really, the major cause was consumer demand. When you look in the stores when the consumer comes in, they place the order right there; they are actually voting at the cash register.

There was a resurgence of consumer demand, the value of the U.S. dollar was particularly strong, and we were able to go overseas and procure the best possible prices and quality products for the consumer. And that is exactly what happened.

Mr. **Ortenberg**. Can I add to that, please, Senator?

Senator **Danforth**. Yes.

Mr. **Ortenberg**. There is also a technique in the Orient and offshore known as performance building. As restrictions are put on the importation of any goods—and I am thinking of the number of calls that took place in 1983 and 1984—island hopping, country hopping, adaptation by our exporting partners becomes the rule. It was inventory building primarily of low-cost merchandise that created a deluge of imports; just as the country-of-origin regulations, in my opinion, was the major cause for the importation of ramie cotton sweaters from June 1984 through June 1985. To a great extent, I think, it was an adaptation in addition to a much healthier economic environment.

Mr. **Clayton**. May I also add, with respect to the luggage industry, that before that time the soft-styled luggage was primarily made out of vinyls. There was very little market for the textile-type luggage. It was during this time that the consumers' tastes changed dramatically, creating a great demand for a product that was not made here, and that's the textile luggage.

Senator **Danforth**. Do you think that the future of the U.S. textile and apparel industries is bright, or bleak?

Mr. **Clayton**. Senator Danforth, if we were to be focusing on creating larger markets for our products instead of protecting just one market in the world, I think the future could be brighter. By a protectionist measure, we are protecting the U.S. market, perhaps, again, at higher prices; but if we could do something such as what was suggested earlier about making our products more competitive in a worldwide market, I think that the textile industry could have a brighter future.

I know, at our company, exports have been very difficult for us in recent years because of the extreme strength of the dollar. Earlier years when the dollar was not so strong, we had a much stronger export business. There is a large market available to us in the world, much larger than just the U.S. market alone, and that market, I think, if it were served by our industries would provide plenty of jobs.

Senator **Danforth**. Do you think that the goal, therefore, should be to reduce the value of the dollar?

Mr. **Clayton**. I think the goal should be perhaps to reduce the deficit, which I think would drive down the interest rates and make the dollar fall back down to more realistic levels.

Senator **Danforth**. Mr. Ortenberg.

Mr. **Ortenberg**. Senator Danforth, I think that "bright" or "bleak" is not necessarily a proper description. I think that there will be a consolidation of the U.S. textile industry. I think as the U.S. textile industry becomes more market minded—and I would say over the last 6 months our company has been attempting somehow to reduce the polarization and radicalization of positions that has taken part, I find that most of the major textile people we are dealing with are indeed becoming more market oriented.

As far as I am concerned, I think it becomes a question of selecting your marketplace, seeing where your strengths are and, for God's sake, putting an end to the polemics and the radicalization that now exists in the industry.

Senator **Danforth**. Well, what do you mean by that?

Mr. **Ortenberg**. For one thing, none of the parties who are sitting at this particular table I think had any input whatever into any of the legislation that we are now looking at and to the country-of-origin regulations. I think working together both with industry, importers, manufacturers, and indeed apparel unions as such, we can begin to define where this industry can be competitive and where it cannot be. We cannot make all products, but indeed we can make more innovative products at higher value and sell them not only here but abroad.

Senator **Danforth**. Senator Chafee.

Senator **Chafee**. Thank you, Mr. Chairman.

Mr. Davis, it seems to me you give an incredible indictment of the American textile industry—they are not flexible, they are not quick in responsiveness, they don't deliver the goods on time when you order them, they won't give you the short runs. What is the matter?

Now, we have had able textile people come before us talking about modernizing their mills. This gets back to Mr. Ortenberg, also, who says that these people modernize their mills, but all they are interested in is modernization instead of responsiveness to the market.

Now, if we take the combination of what you and Mr. Ortenberg said, it seems to me that the American textile industry is not very bright. Is that your conclusion?

Mr. **Davis**. Well, Mr. Chafee, I think the statement is that they are not flexible. And I am certainly not trying to indict the entire industry. We still manufacture in this country about 60 percent of our apparel line. The problem is that, as our line has grown, we have found more and more the American manufacturers to be inflexible, demanding that we make minimum purchases or that we purchase their styles that they are capable of or are rooted in designing and manufacturing.

For instance, one of our biggest segments of our industry is the jogging suit or warmup suit. In this country, we have found that manufacturers very often demand that we design these units so that they be manufactured on a circular-knit machine.

Senator **Chafee**. Well, you say that in your statement. That is what prompted my question. Here you say, "In attempting to locate a suitable domestic source for these suits, Nike was confronted by manufacturers who would produce the suits only on circular knit machines and without inset side panels, as requested by the designers." So they wouldn't give you what you wanted. I find that incredible. After all, you are not some fly-by-night outfit; any order you place is substantial. Now try us in Rhode Island; we will produce what you want. [Laughter.]

And on time. The next point you make is that they send you the material but not on time. Now, has America gone sour, or something?

Mr. **Davis**. Well, Senator Chafee, if you would refer to the attachment that I made a part of the written testimony, I requested our production scheduling manager to prepare a statement concerning why he was seeking more offshore production. Included in there he has definite examples of his attempts to do business with American companies. You will find in there a series of letters to one of the largest manufacturers in this country asking that they meet their production-scheduling requirements. And you will note, time and again they are behind. Even when they made additional promises, they could not deliver the goods as scheduled.

Now, as I said, this does not occur with all manufacturers; but it has in fact occurred in such frequency that it has driven us offshore to source at least a portion of our goods.

Senator **Chafee**. Now, Mr. Tandler, you make the same point. You said the fabrics you seek—and you gave us three of these, are in combed cotton. These high-quality fabrics won't be produced in the United States, and yet, we hear from our manufacturers that they can survive in that area, in the high-quality area; where they get into difficulty is when they get into the mass-produced, so-called more low-quality area.

Mr. **Tandler**. Perhaps it is a question of definition, but I have been specifically involved with these three fabrics, as well as others, with the best textile mills in this country. We are talking about it, and they simply cannot do this. This cannot be made in this country, as I said in my testimony, irrespective of price. And there are other fabrics of a higher quality—as I said in my testimony—hundreds of other fabrics, which literally fall into this category. And you are starting from the beginning with spinning, weaving, dyeing, and finishing, right through. And if you look at these fabrics, these are very clean. You just won't get anything like this—anything like it—comparable in this country.

Senator **Chafee**. Well, where will you get it?

Mr. **Tandler**. These are all made in Japan.

Senator **Chafee**. Here is 100 percent combed cotton antigua.

Mr. **Tandler**. These are all made in Japan, and they could be made in Europe. And that's about it in the world today.

Senator **Chafee**. Well, I find that a discouraging note.

Mr. **Tandler**. It is.

In these yarn-dyed fabrics, for example, these colored woven fabrics, the minimum yardage that we need to order in Japan of these fabrics is 1,000 yards per color. In the United States for any yarn-dyed fabric—and it would not be of this quality, as I stated before—you would need 9,000 yards of a color.

Now, in a fancy fashion business, you might not want to start off with 9,000 yards. That is a lot, if you have an extensive line of fabric.

Senator **Chafee**. Well, I find it awfully hard to believe that there is not a responsiveness to the demand in the United States amongst our textile manufacturers, that if somebody wants 1,000 yards of 100-percent combed cotton, antigua design, that somebody won't produce it.

Mr. **Tandler**. It is disheartening to me. I have spent the last 5 to 10 years trying to persuade the best, the biggest textile manufacturers.

Senator **Chafee**. Well, I'm not sure I would try to persuade the best and the biggest. I think I would try to persuade the best and the smallest, maybe.

Mr. **Tandler**. Also, I've gone the route. There is no textile firm of any size that I have not worked with extensively.

Senator **Chafee**. Well, we will have to talk to the ATMI and see what goes on here. Similarly, Mr. Ortenberg's statements about American manufacturers being solely interested in production and not consulting the market—that seems to be a terrible problem.

You all seem to sound the same note here, that our manufacturers are not responsive to the market. That is your point, Mr. Ortenberg.

Mr. **Ortenberg**. Senator Chafee, I have been in the textile business and apparel business for about 35 years. I have grown up with people like Les Hudson of Dan River, who I find today to be very responsive because of the pressures of the marketplace. I have grown up with people like Bill Klopman and his entire company; we know them well—Ben Samson of Picone, et cetera.

Unfortunately, this industry has historically been a mill-oriented, commodity, long-run-minded industry. I would say it is only recently, within the last 24 months, that we have seen some sort of a shakeup and the attempt to become responsive, flexible, and to provide short runs.

The last 10 years, as the American career woman has emerged and as telecommunications have made fashion instantaneously available to people coast to coast, we have developed a brand new, highly selective marketplace, and that marketplace is just not going to take 37 singles, 50 percent polyester, 50 percent cotton from Dan River forever and ever. It has always been the same thing as the Ford Model T, "You can have any color you want, as long as it's black." We see that changing, sir.

Senator **Chafee**. Again, I want to get to each of you to see if you agree with the point Mr. Davis made in his testimony. I can't put my finger on it, but somewhere in here he says that it is not a question of price, the price isn't the problem. Don't you say that in your statement, Mr. Davis, that it is the quality and the promptness and delivery and so forth? In other words, you are saying that if American manufacturers could meet your requirements on styling and delivery schedules, that they could meet your price.

Mr. **Davis**. I think what my statement says is that price is not the primary consideration, that we look at the entire aspect of the problems we have had dealing with this industry.

In order to go offshore, we have to deal with long-term delivery schedules, coming across by ocean, ocean-freight rates, delays in U.S. Customs, payments of customs duties. If we could eliminate all of those and get the same delivery, the same quality product at the same scheduled date, then price becomes a lot less important.

Senator **Chafee**. What do you say to that, Mr. Ortenberg?

Mr. **Ortenberg**. Absolutely agreed. And one of the things we have discovered recently in working with Dan River is that giving them high-quality innovative fabrics, their cost system, even on a start-up basis, was close enough to a landed down price on a Japanese yard of goods, and that certainly from our standpoint we plan to work as closely with Dan River in the future to help them develop innovative goods.

Senator **Chafee**. What do you say to that, Mr. Tandler? Do you agree?

Mr. **Tandler**. I am not familiar with the Dan River situation, but in general, absolutely. Price is not the main obstacle. Price is not a consideration absolutely for our customers, and I am in agreement, absolutely.

Senator **Chafee**. Well, it certainly is a discouraging note regarding American manufacturers. If they are not responsive now, in these critical times, I don't know when they would be responsive.

Mr. **Reed**. Senator Chafee, I think part of the inertia you are sensing in the domestic industry is a direct result of the current protectionist measures that are in force. Competition has proven to be the real force that makes people want to get out there, be flexible, be aggressive, and respond to market conditions. And currently there are protectionist measures there that are protecting the domestic industry, and there is a lack of interest at certain times to respond to the real needs of the consumer as they develop.

Senator **Chafee**. I am not sure I would agree with that. We have had testimony from the manufacturers on the other side of this issue who have shown they are dropping like flies along the way, blaming the imports. So I wouldn't say that they are so shielded by protectionist measures that they don't feel the hot breath of the imports on them.

I notice in your demonstration that you showed maybe 10-12 percent of the cost of the garment was due to protectionism, but that does not give them protection, at least in their view. That is why this bill is here.

Mr. **Reed**. But there seems to be a lack of motivation in many sectors of the industry to respond to the needs that we have. For instance, we approached certain manufacturers of sweat products trying to come up with a cotton sweatshirt. They insist that 50-50 is the right one, because they have been producing it for 20 years, and that is what the consumer wants, and their business is ahead 20 percent, so why change? But the consumer is saying that they want the different product, and the industry must respond to it. And unfortunately, some of the foreign manufacturers are quicker to respond.

Mr. **Clayton**. Senator Chafee.

Senator **Chafee**. Yes.

Mr. **Clayton**. I suggest that perhaps there is a difference in the way that the U.S. textile industry and the foreign industries are set up. We find in our purchasing—and we purchase quite a bit of American textile—that the spinning, the weaving, the dyeing, and the finishing operations are all done by separate companies, widely separated geographically.

Senator CHAFEE. Do you mean here in the United States?

Mr. CLAYTON. Yes, here in the United States.

Senator CHAFEE. Well, we've got some vertical companies.

Mr. CLAYTON. True. But for the most part, the ones we keep running into seem to be just taking on one of those tasks; whereas, where we find textiles overseas, we find that it is primarily vertically integrated—all of them together, very close quality, and very low costs, as a result, without having to have four different people and transportation costs between involved.

Senator CHAFEE. Well, I am not going to argue the merits of vertical versus horizontal, but there is no question that we have the horizontal system basically in the United States because that has been the most responsive. They can jump faster than Cohn or Spring or Burlington, or somebody else. At least, traditionally that has been true.

But apparently something has gone wrong, somewhere.

All right, anything else, gentlemen? We welcome Mr. Gene Rossides here.

Mr. DAVIS. Senator Chafee, if I might, the questions that you have asked concerning the inflexibility of the domestic industry—recently the University of South Carolina did a study concerning this particular issue. I would like to obtain a copy of that study and deliver it to you.

Senator CHAFEE. Do you quote from that study in here?

Mr. DAVIS. I do not. But I would like to obtain a copy of it and——

Senator CHAFEE. Well, Mr. Ortenberg, or somebody, has a lot of quotes from South Carolina studies, don't you?

Mr. ORTENBERG. Yes. We are in the process of funding a study with the master of international business school, Jim Cains, down at the University of South Carolina.

Senator CHAFEE. Is this the same one you are referring to, Mr. Davis.

Mr. ORTENBERG. No, ours is just beginning, sir.

Mr. DAVIS. No, the one that I am referring to has been completed. I was going to say I would like to obtain a copy and provide it to the committee to augment my testimony in this matter.

Senator CHAFEE. All right, that's fine. That's good.

Thank you, gentlemen, very much.

Our next panel consists of Sidney N. Weiss, international trade counsel, American-Israel Chamber of Commerce and Industry; James H. Lundquist, president, Italy-America Chamber of Commerce; Mr. T.W. Hu, president, United Friends, Inc., on behalf of the Taiwan Textile Federation, Republic of China; and Robert L. McNeill, executive vice chairman, Emergency Committee for American Trade.

I must say, after hearing that previous testimony, if some manufacturers don't get in touch with Mr. Davis of Nike, they should be chastised. There is an order there, if somebody will reach out for it.

All right.

Mr. Weiss.

STATEMENT BY SIDNEY N. WEISS, ESQ., INTERNATIONAL TRADE COUNSEL, AMERICAN-ISRAEL CHAMBER OF COMMERCE AND INDUSTRY, INC., NEW YORK, NY

Mr. WEISS. Thank you, Mr. Chairman.

I am Sidney Weiss, an international trade lawyer in New York City. For over 5 years I was an attorney with the U.S. Department of Justice in the Customs and International Trade sections and was responsible for defending the determinations of the U.S. Government in the areas of Customs, countervailing duties, and antidumping duties.

I am testifying as international trade counsel to the American-Israel Chamber of Commerce and Industry, Inc., a U.S. nonsectarian and nonpolitical trade organization representing over 500 companies who trade and invest in Israel.

Our chamber has been awarded the U.S. President's E Award for promoting U.S. exports abroad.

I would like to limit my comments today to the areas of concern which are unique to the members of our chamber and which I believe have a profound effect on the future conduct of the U.S. international trade policy.

As you and the members of your committee know, since November 1983 the Governments of Israel and the United States have been negotiating an agreement to establish a free trade area between the two countries. The Free Trade Area Agreement has now been approved by both Israel and the United States and has been in effect since the beginning of this month.

The agreement includes phased duty reductions for every product in the Tariff Schedules of the United States and the Tariff Schedules of Israel. Among the most exhaustive negotiations between the United States and Israel in coming to an agreement on the FTA were the negotiations on the textile and apparel tariff provisions. That is because under the current tariff status, about 90 percent of Israel's exports enter the United States free of duty. The only areas in which this is not true are chemicals and textiles and apparel. The United States ensured in these FTA negotiations that the United States textile and apparel industries were given the maximum protection by moderating any possible growth in Israel's exports under the FTA Agreement.

Accordingly, as part of the agreement, Israel agreed to eliminate all export subsidies. In addition, all unfair trade practices continue to be subject to U.S. countervailing duty laws, antidumping laws, and other U.S. trade laws. Any growth in Israel's textiles and apparel exports to the United States, no matter how dramatic, could never become even a minor factor in the United States market. For example, Israel's exports of textile yarns and fabrics to the United States in 1984 amounted to only $11 million. That is about one-fiftieth, one-fiftieth of 1 percent of total U.S. output. Israel's exports of apparel to the United States for the same year amounted to about $35 million; that is about one-twentieth of 1 percent of total United States output. Thus, even if Israel succeeded in achieving a remarkable expansion of its exports to the United States, their ratio to total United States output could not conceivably reach 1 percent.

In view of the fact that both Israel and the United States negotiated in good faith during the FTA negotiations with regard to the reduction in duties to the textile and apparel provisions, and because each side made valuable concessions during the negotiations, we propose that any country which has entered into a Free Trade Area Agreement with the United States should be exempted from S. 680. We propose the following language be inserted in the bill:

> Any country having entered into a Free Trade Agreement with the United States, pursuant to the provisions of the Trade and Tariff Act of 1984, shall be exempt from operation of and compliance with this law.

In summary, Senator Chafee, in view of the fact that Israel in these negotiations has made more concessions than asked of any country under any of the proposed tariff legislation in Congress today, I believe it would be unfair not to exempt Israel from the effects of this bill.

Thank you.

Senator **Chafee**. Thank you, Mr. Weiss.

Mr. Lundquist.

[Mr. Weiss' written testimony follows:]

AMERICAN-ISRAEL CHAMBER OF COMMERCE & INDUSTRY, INC.

TESTIMONY

of

SIDNEY H. WEISS
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before
THE COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE
UNITED STATES SENATE
September 23, 1985

IN REFERENCE TO S. 680

on behalf of
THE AMERICAN ISRAEL CHAMBER OF COMMERCE AND INDUSTRY, INC.
500 Fifth Avenue
New York, New York 10110
(212) 354-6510

The Chamber is a recipient of the E Award of the President of the United States

500 FIFTH AVENUE, NEW YORK, N.Y. 10110 PHONE (212) 354-6510 CABLE AMISCOM INTERNATIONAL TELEX 620793 AMISCOM

I am Sidney Weiss, an international trade lawyer in New York City. For over 5 years, I was an attorney with the United States Department of Justice, Customs, and International Trade Sections, and was responsible for defending the determinations of the United States Government in the areas of customs, countervailing duties and antidumping duties.

I am testifying as international trade counsel to the American-Israel Chamber of Commerce and Industry, Inc., a United States, non-sectarian and non-political, trade organization representing over 500 companies who are involved in exports to, investments in, and imports from Israel. Our chamber has been awarded the United States President's "E" Award for promoting United States exports abroad. I am testifying today in reference to the textile quota Bill, S. 680. As I will explain below, the Chamber of Commerce believes that if this Bill becomes law, it should have a provision exempting those countries who have entered into a Free Trade Area Agreement with the United States from the effects of the Bill.

I would like to limit my remarks to the areas of concern which are unique to the members of our Chamber and which I believe have a profound effect on the future conduct of United States international trade policy. As you know, since November 1983, the Governments of Israel and the United States have been negotiating an Agreement to establish a Free Trade Area between the two countries. Our Chamber testified before this committee both in this Congress and last Congress for the passage and approval of the Free Trade Area Agreement. The Free Trade Area Agreement has now been approved by both Israel and the United States and has been in effect since the beginning of this month.

The Agreement, which this country especially viewed as a model of our commitment to the exercise of international fair trade, both on a multi-lateral and bi-lateral plane, provides that all duties on both countries' products upon entry into the customs territory of the other should be eliminated, together with all non-tariff trade barriers, subsidies, and other quantitative restrictions.

The FTA Agreement includes phased duty reductions for every product in the Tariff Schedules of the United States, with reciprocal provisions under the Israeli Tariff Schedules. Among the most exhaustive negotiations between the United States and Israel in coming to an agreement on the FTA were the negotiations on the textile and apparel tariff provisions. The United States ensured in these negotiations that the United States textile and apparel industry were given the maximum protection under the FTA Agreement.

Accordingly, as part of the Agreement, Israel agreed to eliminate all export subsidies. In addition, all unfair trade practices continue to be subject to U.S. countervailing duty and antidumping duty laws, as well as other provisions of our trade laws. Currently, about 90% of all of Israel's exports to the United States enter the country on a duty-free basis under the Generalized System of Preferences, the GSP. The only areas in which Israel stands to benefit from the FTA are those areas such as textile and apparel, and chemicals, in which duties can be as high as 30% or more, and which are excluded from duty-free treatment under the GSP. To this end, and in view of the political and economic sensitivity of this issue in this country, United States and Israeli negotiators spent approximately six months in good-faith negotiations reviewing each item in the Tariff Schedule of the United States relating to textiles and apparel, and agreeing to the precise schedule of reduction and elimination of duties over the next ten years. This surely was a pain-staking effort for both sides. The negotiating process could have had only one reasonable goal. That is, to control, in some measure, a moderate growth of Israel textile and apparel imports into the United States which was the intended or anticipated result of the negotiators.

Such a growth, no matter how dramatic, could never become even a minor factor in the United States market. For example, total exports of the Israeli textile industry declined from a peak of 466 million dollars in 1980 to 387 million dollars in 1981 and to 341 million dollars and 370 million dollars in 1983 and 1984 respectively.

Production in the Israeli textile industry has also been disappointing - the average annual growth rate between 1979 and 1984 was only 0.3% in textiles and decreased by 1.4% in apparel. Total output in 1984 amounted to $800 million in textiles and to $700 million in apparel.

Israel's exports of textile yarns and fabrics to the United States in 1984 amounted to only $11 million, that is, only 0.3 percent of total U.S. imports or 0.02 percent of U.S. output.

Israel's exports of apparel to the United States for the same year amounted to $35 million, that is, 0.2 percent of total U.S. imports or 0.06 percent of U.S. output.

Thus, even if Israel succeeded in achieving a remarkable expansion of its exports to the United States, their ratio to total U.S. output could not conceivably reach 1 percent.

In view of the fact that both Israel and the United States negotiated in good faith during the FTA negotiations with regard to the reduction in duties for the textile and apparel provisions, and because each side made valuable concessions during the negotiations, we propose that any country which has entered a free trade area agreement with the United States should be exempted from S. 680. We propose the following language be inserted in the Bill:

> "any country having entered into a free trade agreement with the United States purusant to the provisions of the Trade and Tariff Act of 1984, shall be exempt from operation of, and compliance with, this Law."

STATEMENT BY JAMES H. LUNDQUIST, PRESIDENT, ITALY-AMERICA CHAMBER OF COMMERCE, INC., NEW YORK, NY, ACCOMPANIED BY: GUNTHER VON CONRAD, ESQ., BARNES, RICHARDSON & COLBURN, WASHINGTON, DC

Mr. LUNDQUIST. Good morning, Mr. Chairman. I am Jim Lundquist. I am appearing today as president of the Italy-America Chamber of Commerce. With me is my counsel, Mr. Gunther von Conrad.

Senator CHAFEE. How does somebody named Lundquist become a representative of the Italy-America Chamber of Commerce?

Mr. LUNDQUIST. Well, you will notice that the second part of our name is Italy-America. I guess that I'm that with a Swedish touch.

Senator CHAFEE. I see.

Mr. LUNDQUIST. But that point aside, I have worked with these ladies and gentlemen for a quarter of a century, and at this stage I am appearing as their president, and I am honored by that election.

We are here today on behalf of an integral part of the U.S. industry. And in the knowledge that my full statement will be of record, I will merely highlight one or two points, Mr. Chafee.

To a great extent, the United Kingdom and Italy have always been a part of the United States industry, and our exports of textiles go back to simple goods 75 years ago.

The position of Italian-made goods in the U.S. market is a complement, as we have said in our statement, rather than a strongly competitive factor.

And in any legislation designed to further restrict imports, we think it is important to look at things on a specific basis.

In follow up to your analogy on steel, I would just like to point out that the guts of our statement, as is true in most statements, is in one of the tables, and it is table 3. In our table 3 we break down the large categories serviced by Italian suppliers to American importers, including cotton products, woolen products, and manmade fiber products.

You will note in the columns that Italian-made goods are by and large very much above in value and price than other items imported from other countries, with the exception of those raw materials used by our tailors, our fine shops and others, to produce finished goods. We have tried always to maintain fair prices—and it is an unsubsidized industry—and I think you will find that is the case with Western Europe generally.

We are extremely upset and concerned by testimony in that other body that the legislation should be amended to delete the exemption for Canada and Western Europe. This would be a mistake, because it would then tend to deprive the United States of sorely needed material and production, and thereby divert production from Europe to other places; and of course the retaliatory aspects—when you close down one market, another must accept it.

So, we are here today to support examination. And we sympathize with our customers, the textile industry; but we oppose new tariffs or quotas as being counter to the needs of the national economic interest, and counter to the consumers and manufacturers.

Thank you, Mr. Chairman.

Senator **Chafee**. Thank you, Mr. Lundquist.

Mr. Hu.

[Mr. Lundquist's written testimony follows:]

In the Matter of:

PUBLIC HEARINGS BEFORE THE SUBCOMMITTEE ON TRADE, COMMITTEE ON FINANCE OF THE UNITED STATES SENATE	The Textile and Apparel Trade Enforcement Act of 1985, Senate Bill 680

Washington, D. C.
September 23, 1985

STATEMENT OF THE ITALY-AMERICA CHAMBER OF COMMERCE, INC.

This submission by the Textile and Apparel Committee of the Italy-America Chamber of Commerce, Inc., (IACC) supports re-examination of existing international accords in the Textile Sector which cover imports generally. We oppose, however, establishment of new tariffs and/or non-tariff barriers which would inhibit the trade in textiles and apparel between the United States, Italy and Western Europe.

The Italy-America Chamber of Commerce, located at 350 Fifth Avenue, New York, New York, is a U.S. association of business interests involved in commerce between our country and Italy. The IACC, founded in 1887, consists of almost 500 members throughout the United States and is the oldest chamber of commerce in America. The IACC Apparel and Textile Committee is composed of 31 members doing business in all fifty states accounting for approximately 50% of textile and apparel imports from Italy. Our U.S. business has been carried-on for over 75 years. IACC Committee members consider themselves an integral part of the American textile industry because our suppliers in Italy are traditional merchants who have established international recognition as skilled craftsmen and fair competitors. Accordingly, this Statement will reaffirm the historic record of high quality, high style Italian made products as a complement to U.S. production.

The Complementary Role of Imports from Italy

During the past several years, total imports of textiles and apparel into the United States have accelerated sharply, both in absolute amounts and relative to the U.S. market. The greatest increase in such imports has come from low-wage countries in the Far East and elsewhere; frequently referred to as newly "emerging textile exporting countries." A large part of these shipments to the United States are comprised of made up or finished articles of apparel and other merchandise, whose principal appeal (from the standpoint of the U.S. market) may be the price, or cost of the products to the distributor or retailer, and ultimately to the consumer. A significant part of this trade results from the practice of U.S. merchandisers, whether distributors, producers or large retail chains, of placing overseas orders for products that can be purchased at substantial savings (often to U.S. specifications or designs), and which thus constitute a competitive advantage for those engaged in such operations. Many U.S. manufacturers also supplement their lines through use of such imports.

By and large, this contrasts sharply with the imports from Italy. Such imports, and the trade of members of the IACC, basically consist of a relatively few categories - mainly high-priced specialties. In contrast, importations accounting for the great bulk of the total U.S. imports, are comprised of a much wider range of lower valued merchandise for the U.S. mass market. While a large part of the imports from the major textile producing countries are made up of finished articles having a relatively low wage labor content, a very significant portion of the imports from Italy consist of high-quality, and high labor and wage content products and specialties for further processing or for further manufacture in the United States.

With respect to the finished products from Italy, much of the trade consists of high-valued specialties not readily available domestically. Such specialities are, in major part, sold in specialty stores, boutiques, or other individualized outlets, at prices that cannot by any measure be regarded as price competitive with product sourced in the United States or elsewhere. In general, Italy cannot and does not compete in the mass-market for textiles and apparel that is increasingly being supplied by low-wage countries with the help and assistance of the mass retailers in the U.S., as well as certain U.S. manufacturers.

A clear indication of the modest role of the Italian trade is provided in Table 1, which shows the trend of the total imports of the United States — by the fiber content of the merchandise — for the period 1981-1985[1] With respect to products wholly or chiefly of cotton, for example, total U.S. imports rose by about 1.6 billion square yards (based on the yardage equivalents of all imported articles, as compiled by the Department of Commerce.) During the same period, the imports from Italy, which consistently were about 1% or less of total imports from all sources, rose by only thirty-four million yards. In that period the imports from all other countries increased forty-seven times more than similar receipts from Italy. It is, therefore, inconceivable that the Italian shipments could be cause for concern given this disparity in the magnitude of the trade.

With respect to woolen products, Table 1, indicates an aggregate 1981-1985 increase in the imports from all countries of some seventy million square yards (expressed in the yardage equivalent of all products). That increase was three times the increment in the receipts from Italy in the same period, notwithstanding that Italy long has been regarded as the source of premium woolen fabrics that are perhaps without equal anywhere in the world.

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[1] 1985 calculated at an annual rate based on the first six months of 1985.

As for products of man-made fibers, the change in the imports since 1981 has been even more dramatic than that for either cotton or wool. Table 1, also shows that, from 1981 to 1985, the aggregate increase was some three billion square yards; again, that was over 11 times the modest increase in the entries from Italy in the same period. Italy has but a small share of the U.S. market for all products containing man-made fibers, and a good portion of what it does sell consists for fibers and fabrics for further manufacture in this country. Accordingly, it would be inappropriate to allege that the difficulties complained of, relative to such imports, could be attributable in any way, to the Italian trade.

Other characteristics of the imports from Italy also are indicative of the fact they are not harmful to the domestic industry. As noted above, a large part of the imports are comprised of products such as specialized yarns, or quality fabrics used for further manufacture in the United States by the producers of end products. A substantial portion of the imports are comprised of finished specialties for which there is no domestic equivalent in terms of quality, finish, fashion or style or indeed price. It is clear that, in the aggregate, the performance of Italy in various categories used by the Government to establish GATT restraint levels through bilateral agreements and to monitor the trade in these products overall, comports with rules of fair trade and helps rather than threatens American producers.

Fifty-five different categories have been established to control and monitor the imports of cotton products alone. (See Table 2). Italy accounted for less than one percent of the total imports of cotton products from all sources in 1984; the great bulk (81 percent) of that small or negligible percentage was in only eight of the 55 categories used to control such imports. More importantly, nearly 30% of the Italian shipments that year consisted of yarns and fabrics for further manufacture in the United States so that even these small shipments do not constitute a net lost to any domestic textile industry but are, in fact, beneficial to the manufacturing concerns in question.

As Table 2 further demonstrates, some 25 individual categories are used by the Government to negotiate and monitor trade restraints or unfinished and finished articles of wool. About 87 percent of the imports from Italy in 1984 were in only eight of these 25 categories, and over 40 percent of that trade was comprised of high-quality yarns and woolen and worsted fabrics for further manufacture in this country. The great bulk of the remaining imports consisted of woolen sweaters, dresses, and woolen suit coats for men and boys. A very large part of the trade in these made-up, or finished articles consist of high quality, high fashion products sold in specialty or boutique shops at prices far above such articles produced either in the United States or abroad, and accordingly they cannot be regarded as being directly competitive with any U.S. counterpart.

Some 47 categories are used to administer the import restraints on various imported products of man-made fibers. In 1984, Italy had a significant trade performance in only six of these 47 categories, and as Table 2 demonstrates, over 31% of the imports in 1984 was comprised of fibers, yarns, and woven fabrics for further manufacture in the United States.

The Imports from Italy
Do Not Depress Domestic Prices

It is abundantly clear from the foregoing that the great bulk of the increase in the importations the past few years have been from countries other than Italy — mostly from low wage countries in the Far East and elsewhere. As Table 1 demonstrates, total imports of products of cotton rose by 1,647 billion square yard equivalent, whereas the imports from Italy increased by only 34 million. Imports of wool products from Italy rose by only 23 million yards while the total entries from all sources rose three times that amount. The disparity in the importations of man-made fibers was of even a greater magnitude.

The IACC is fully aware of and sympathizes with, the concerns of the domestic industry over increases in the level of importations. But it is clear that the depressant effects of these imports on domestic output and upon prices is not attributable in any quantifiable measure to the Italian trade. More importantly, the importations from Italy do not have the same impact on domestic prices, as do the high volume imports from other sources.

The significance of the disparity in the unit values of the imports from Italy and those from other countries is clearly and conclusively demonstrated in Table 3. Using 1984 as a base, the table compares the average unit value of the imports from Italy in each of the categories accounting for the bulk of the Italian trade with the comparable unit values of the imports, in the same categories, from all countries combined. The unit values of the U.S. imports from Italy in each of the cotton categories in which Italy had significant trade was consistently higher, by a substantial amount, than the corresponding unit values of the imports from all countries. For each of these categories the first cost to the U.S. purchaser (i.e., the purchase price as indicated by the customs value) was from 1.5 to 3.5 times the first cost of similar articles procured from other sources. At the final end user level, this differential is magnified substantially, as the duties, handling charges, commissions, and other mark-ups are always added on as a percentage of the price (or cost) at each point of transfer.

For woolen products the first cost for the imported Italian product was significantly higher than that for all countries in seven of ten product categories significant to Italy. It was about equal to the products of other foreign suppliers for the other three.

In the case of products from man-made fiber products, the first cost for Italian products for use in further manufacture in the United States was somewhat lower than other sources for three raw material categories, (categories 602, 604, and 612) but it was substantially higher in two other categories (613 and 614 which cover certain woven fabrics).[2]

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[2] Statistical or reporting errors made a comparison for the sixth item (category 669

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CONCLUSION

Based on all of the evidence it is indisputable that the imports from Italy, and indeed from Western Europe, have not contributed to the conditions of which the U.S. textile and apparel industries complain. On the contrary, the nature of Italian imports is such that they have tended to stimulate U.S. demand, and hence, production, through either emulation, or the use by American firms of high quality fabrics not available or not readily available, from U.S. sources or producers.

The problems of the United States in the area of trade are complex, and obviously, are not solely attributable to imports. As Congress is well aware, U.S. fiscal policy, its effect on interest rates and, derivatively, upon the value of the dollar, is an important element in the equation. The spread of technology and productive capacity world-wide is another. Trade itself is becoming multinational as business decisions are increasingly made to source parts or components of whole products in one country or area providing the greatest comparative advantage or quality, while conducting the finishing and marketing operations in another. American businessmen in particular, have long been in the forefront of this trend and, accordingly, have contributed significantly to the growth of imports. Imported textiles and apparel products are not "pushed" into our country, they are "pulled-in" by American businessmen.

This general phenomenon, has for years been clearly in evidence in the apparel and textile industries. Retailers and U.S. manufacturers, preoccupied with the mass volume market, have increasingly imported directly from low-wage areas or have supplied U.S. components for offshore assembly where labor resources and profit margins are greater. U.S. manufacturers have seemingly been willing to abandon high quality lines which provide lower profits. Better quality products generally require more time to produce, a greater

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(cont.)
which provides for miscellaneous articles of man-made fibers) impracticable.

capital investment and have slower growth potential in sales. As certain American firms sacrificed quality for volume, the void was taken up by foreign suppliers who recognized the demand and the willingness of the American public to pay relatively higher prices for products. Concurrently, high interest rates and rampant inflation forced many medium and small manufacturers of quality products out of business leaving an even greater void to be filled by imported products responding to consumer demands for better merchandise or materials.

Other factors have had a major influence on changes in the past decade in the domestic apparel and textile industries.

The textile and apparel industries are highly volatile as a result of rapidly changing consumer tastes, demand shifts, and changes in life styles and fashion. Each season is equivalent to launching a new business. If one happens to choose the wrong fashion direction, or if a producer's product has lost favor, margins shrink rapidly and returns on investment disappear.

This volatility alone makes it difficult to attract new capital, yet the demand for investment funds in these industries is greater than ever before. During the past decade, great strides have been made in the development of sophisticated machinery designed to computerize and robotize the apparel industry. There has been a resistance on the part of many clothing manufacturers, to invest in these technological advances. At the same time, these advances have also created new labor problems. In order to establish a new manufacturing facility, a large capital investment is required and the technological skills needed to adapt this equipment for each particular factory is extremely limited in the United States.

Over the last decade, we know of no new quality clothing factories which have been built in the U.S.A. Investing in an apparel manufacturing facility which requires a large amount of capital and needs an abundance of qualified labor may at best deliver an inconsistent investment return; a situation that requires courage and the best available management and enterpreneurial talent. The shortage of labor is, of course, exacerbated by the fact that young Americans seem less inclined to seek employment in these industries. This combination does not necessarily appeal to investors and an uncertain tax and fiscal policies only provide further disincentives.

It would not be possible for the better apparel industry in America to fill remaining demand if additional strict limitations were placed on imported merchandise. There are three basic reasons: First, there is not enough skilled labor currently available at traditional wage scales; second, there are not enough willing investors, and finally, the creativity in textiles and in certain types of apparel merchandising has, with rare exceptions, always been sourced abroad.

The lack of interest or ability of the American clothing industry to increase manufacturing facilities and improve their manufacturing techniques, has enabled high-quality European manufacturers to slowly take their place. GFT (Gruppo Finanziario Tessile), Ermenegildo Zegna, Benetton, Zanella, Marzotto and Brioni, just to mention a few, have built sizable businesses which employ a large American staff to design, manage, merchandise, and sell these products in the American market. The additional at-home or American support for such import interests in banking, factoring, accounting, advertising, public relations, warehousing, clearing houses, consulting, shipping and service industries (i.e. computer and telephone), accounts for literally thousands of jobs across America, and millions of dollars in tax revenue.

Many U.S. producers also fail to address the basic issues, or root causes of the problem: The growth of imported quality apparel has affected the retail community as well. Large stores such as Federated Department Stores (owner of Bloomingdale's), Carter Hawley Hale (owner of Neiman Marcus), Dayton Hudson Corporation, Batus (owner of Saks Fifth Avenue) and the May Department Stores, have unquestionably come to depend on imported merchandise to create much of the excitement necessary to attract customers. In most cases, apparel produced in Italy and Western Europe represents the better quality of fashion-oriented products that have limited or no manufacturing equivalent in the United States. Many fine specialty stores base between 50% and 80% of their business on merchandise that is specifically designed and/or manufactured for them in Italy. These stores have tried to convince American manufacturers of the need to develop more creative quality merchandise. Unfortunately, the reported attitude of some large American manufacturers in this particular industry is that there is not enough growth potential to warrant the attention, effort, and investment that is required.

As indicated, the basic problems in this industrial sector, as in others, are complex. They are beyond the simplistic concept that resolution will come by measures to roll-back all imports or by an increase in the import duties. Such penalty arrangements could have grave consequences on the retail community, on the whole economy, and on our posture in world markets.

The textile and apparel industries of the United States have been, and are, the most highly protected of any sector in the United States. The MFA provides a vehicle for arrangements that could regulate the mass of imports from those countries that are the cause of the problem as the domestic industries in question perceive them. The Congress has already received promises from the Administration that this will be done. The U.S. Special Trade Representative, an extremely able and experienced Diplomat-Businessman, along with his Deputies, are ready to seek modification of current procedures and begin action thereon this year.

Certainly, more is not required at this time.

Respectfully submitted,

ITALY-AMERICA CHAMBER OF COMMERCE, INC.
Textile and Apparel Committee

Linda Cuono, Co-Chairperson
Luciano Moresco, Co-Chairperson
Roy A. Rossetti, Executive Secretary

TABLE 1

TEXTILES AND APPAREL: US IMPORTS FOR CONSUMPTION, — TOTAL AND FROM ITALY.

	COTTON			WOOL			MAN-MADE FIBER		
Year	Total	Italy	% of Total	Total	Italy	% of Total	Total	Italy	% Of Total
	(MILLION SQ. YD. EQUIVALENTS)								
1981	2573.6	10.8	.4%	136.8	9.0	6.6%	3051.9	174.9	5.7%
1982	2447.7	11.6	.5%	145.8	14.1	9.7%	3341.6	182.8	5.5%
1983	3000.9	13.8	.5%	180.9	19.0	10.5%	4524.1	244.6	5.4%
1984	4063.6	27.7	.7%	260.0	42.3	16.3%	5848.8	436.7	7.5%
JAN-JUNE:									
1984	2130.9	15.1	.7%	102.0	16.1	15.8%	2935.6	174.4	5.9%
1985	2110.6	22.6	1.1%	103.2	15.9	15.4%	3020.0	219.4	7.3%
1985 An.Rate:	4221.2	45.2	1.1%	206.4	31.8	15.4%	6040.0	438.8	7.3%
Aggregate Change, 1981-1985 (Annual Rate):									
	1647.6	34.4		69.6	22.8		2988.1	263.9	

Sources: 1983-85 from data published by the Office of Textiles and Apparel, International Trade Administration, Department of Commerce. Data for 1981-82 are from the US International Trade Commission, as derived from materials of the Office of Textiles and Apparel.

TABLE 2

IMPORTS FROM ITALY, BY AGREEMENT CATEGORIES. 1984

COTTON

Total Number of agreement categories		55	
Imports from All Countries		4,063,420	
Imports from Italy		27,732	100.0%
% of total		.7%	
Principal categories from Italy (8):			
320	Woven fabrics of cotton, nes	8,190	29.5%
336	Cotton dresses	1,450	5.2%
340	Men's and boy's shirts, not knit	1,965	7.1%
345	Cotton sweaters	3,190	11.5%
348	Women's and misses slacks & shorts	1,121	4.0%
352	Underwear	1,115	4.0%
359	Misc. cotton apparel	1,852	6.7%
369	Misc. cotton manufactures	3,633	13.1%
Total, above items		22,516	81.2%

WOOL

Total Number of Agreement Categories		25	
Imports from all countries		260,049	
Imports from Italy		42,254	100.0%
% of total		16.2%	
Principal Categories from Italy (10):			
400	Wool tops and yarns	4,767	11.3%
410	Woolen and worsted fabrics	12,902	30.5%
433	Mens' & boys suit-type coats	1,144	2.7%
435	Coats for women and misses	1,142	2.7%
436	Woolen dresses	1,607	3.8%
443	Men's and boy's suits	3,907	9.2%
445	Men's and boy's sweaters	4,373	10.3%
446	Other woolen sweaters	6,297	14.9%
447	Trousers, shorts, for men & boys	1,102	2.6%
459	Other wool apparel	1,648	3.9%
Total, above items		38,890	92.0%

MAN-MADE FIBER PRODUCTS

Total number of categories		47	
Imports from all countries		5,848,764	
Imports from Italy		436,758	100.0%
% of total		7.5%	
Principal categories from Italy (6)			
602	Yarn, cont. fiber, non-cellulosic	81,869	18.7%
604	Yarn, non-cont., non-cellulosic	16,497	3.8%
612	Woven fabric, cont. non-cellulosic	21,359	4.9%
613	Woven fabric, spun yn,non-cellulosic	15,912	3.6%
614	Other woven MMF fabrics	86,579	19.8%
669	Misc. manufactures of MMF	163,540	37.4%
Total, above items		385,956	88.4%

Source: Compiled from data published by the Office of Textiles and Apparel, International Trade Administration, Dept. of Commerc

TABLE 3

AVERAGE UNIT VALUE OF IMPORTS, 1984 FROM ITALY, AND FROM ALL COUNTRIES BY AGREEMENT CATEGORY

MAJOR CATEGORIES FROM ITALY AND UNITS OF QUANTITY:		Dollars Per Unit		Ratio Italy/All
		Italy	All Countries	
	COTTON PRODUCTS			
320	Woven Fabrics of cotton, nes (Syds.)	2.57	1.38	1.86
336	Cotton dresses (Doz)	124.72	81.98	1.52
340	Men's & boy's shirts, not knit (Doz)	166.68	49.18	3.39
345	Sweaters (Doz)	170.59	104.42	1.63
348	Trousers, slacks, shorts, WGI (Doz)	148.46	59.00	2.52
352	Underwear Doz)	12.84	6.33	2.03
359	Misc. cotton apparel (Lb)	19.97	5.93	3.37
369	Misc. cotton manufactures (Lb)	8.24	2.47	3.34
	WOOLEN PRODUCTS			
	MAJOR CATEGORIES FROM ITALY AND UNITS OF QUANTITY:			
400	Wool tops and yarns (Lbs)	4.48	4.63	.97
410	Woolen and worsted fabrics (Syds)	3.47	3.73	.93
433	Men's & boy's suit-type coats (Doz)	623.70	366.07	1.70
435	Coats, women's and misses (Doz)	745.28	293.64	2.54
436	Woolen dresses (Doz)	398.61	281.53	1.42
443	Men's and boy's suits (Doz)	1037.38	709.63	1.46
445	Men' and b oy's sweaers (Doz)	115.15	117.66	.98
446	Other woolen sweaters (Doz)	165.69	143.37	1.16
447	M&B trousers, slacks & shorts (Doz)	293.76	189.03	1.55
459	Misc. woolen apparel (Lbs)	20.89	15.67	1.33
	PRODUCTS OF MAN-MADE FIBERS			
	MAJOR CATEGORIES FROM ITALY AND UNITS OF QUANTITY:			
602	Yarn, cont.fiber, non-cellulosic (Lbs)	1.19	1.36	.88
604	Yarn, non-contin.fibr,non-cellulos(Lbs	1.43	1.62	.88
612	Woven fab.,cont.fib,Non-cellu. (Syds)	.74	1.03	.72
613	Woven fab.,spun yn.,Non-cellu. (Syds)	1.67	.70	2.38
614	Oth wov. MM fabr. (Sqyds)	1.38	1.31	1.06
669	Misc. mfrs. of MM fiber (Lbs)	*	2.21	*

Source: Compiled from data published by the Office of Textiles and Apparel, International Trade Administration.

* Deleted because of substantial reporting or statistical errors making comparisons meaningless.

APPENDIX

The Characteristics of the imports from Italy

The unique and costly nature of most products imported from Italy are fully confirmed by statements on the proposed legislation prepared and submitted by U. S. business firms engaged in such trade. Excerpts from these statements follow because they unquestionably reflect the characteristics of the Italian merchandise and the factors accounting for the continuing demand.

One importer states:

> Our "Italian" supplier is a fabric producer. It produces the highest quality level of printed natural fiber cloths such as silk, wool, cotton, linen, and blends of these. The fabrics are used for accessories (ties/scarves) women's wear and home furnishing. The 100% silk accounts for over half of our imports.
>
> There is no domestic American company which produces the kind of fabrics our supplier produces, either in styling (amalgam of cloth design/color) or intrinsic quality of goods, or printing quality. Hence, we do not cause injury to any domestic operation. Indeed, American apparel manufacturers use our goods to compete with imported apparel.
>
> There is no domestic printing facility in the U. S. which can print the designs given to us by American decorator fabric companies. We print designs with 34, 40 and 47 screens! The nearest domestic equivalent is up to 26 screens; most average 22 screens. Hence there should be no restraints on the importation of these goods.
>
> The nearest domestic equivalent for printing decorator fabric is one half our cost. Imports from the Orient cost from 1/2 to 2/3 less than our prices.
>
> Hence we strongly urge the exclusion of Italian textile products from all import restraints.

An importer of fabrics of cotton, linen, and cotton linen blends states:

> Our line is well known to all the top American designers and we are considered to be the top linen specialists in the world.
>
> Fabrics such as ours constitute a highly specialized operation. Comparable products are only made in Italy and marginally in France, Belgium and Ireland.

> While some linen/viscose and linen/man-made fabrics are made in the United States and the Orient, these consist principally of imitations of our products from Italy and cannot be regarded as directly competitive.
>
> Our products are sold only to U.S. manufacturers making high-priced, high-fashion garments. They fill a special niche in the U.S. market and are not directly competitive with the products of U.S. mills.

Another firm states:

> We are engaged in the importation and distribution of private and designer label men's and women's apparel. The demand for such merchandise is based primarily on the "quality in make and fabric" of our Italian clothing.
>
> It is important to understand that we sell our Italian clothing into a market segment that is higher in price than other products and is not in direct competition with any U.S. product.

An importer of wool, silk, and blended fabrics from Italy reported:

> The market for our products is based upon the demand for quality fabrics unattainable in the USA, and upon the service offered by the Italian mills. Our suppliers will deliver runs as low as 110 yards per color and design. The minimum in the U.S. is 640. This provides U.S. clothing manufacturers with significantly greater flexibility and lower inventory requirements, and represents a real operating advantage not offered by U.S. mills.

A major importer and distributor of Italian clothing states:

> Our method of designing, merchandising and manufacturing men's apparel can not be duplicated by any other apparel company. In addition, we have succeeded in marketing our product to a sophisticated consumer who appreciates our ability to provide a garment of unique quality.
>
> Our singular distinctiveness lies in the fact that we are the only high-quality vertical apparel manufacturer in the world. We begin the manufacturing process by choosing only the finest natural raw materials that will be used to create the fabric. This initial step is essential because it establishes the characteristics that we feel are most desirable in the final fabric. The garment will retain the characteristics that were built into the fabric. These characteristics are: wrinkle resistance, drapability, durability, natural resilience, and a built-in elasticity that are part of the secret in creating a garment of unusual comfort and appearance.
>
> The art of our manufacturing process requires the blending of two worlds, the past and the present. The old tradition of Italian hand tailoring and the latest in computer and robotic engineering work go hand in hand to

produce the exceptional fit, look, and comfort for which there is no substitute. The silhouette of our suits or sportjackets is not available from any quality domestic manufacturer. In developing this silhouette, we have recognized and satisfied the needs of a highly sophisticated consumer. This consumer is not interested in purchasing traditional American styled-clothing.

If trade restrictions prevented the importation of our product, it would have a detrimental effect on the many of our retailers who depend on apparel from our company for a large portion of their quality business.

American manufacturers have tried to duplicate our product by purchasing such cloth. Unfortunately, even the better manufacturers have had a difficult time working with the fine fabrics which are the essence of our business. The manufacturing of these fabrics require a technological know-how and highly skilled labor force which does not exist in most American factories at the present time. Many American companies have ceased buying these fabrics because of the problems they have had manufacturing with them.***

Note: References to names and companies have been deleted but are available upon request.

STATEMENT BY T.W. HU, PRESIDENT, UNITED FRIENDS, INC., WASHINGTON, DC, ON BEHALF OF THE TAIWAN TEXTILE FEDERATION, REPUBLIC OF CHINA, ACCOMPANIED BY MYRON SOLTER, ESQ., SPECIAL COUNSEL, UNITED FRIENDS

Mr. Hu. Mr. Chairman, my name is T.W. Hu. I am the president of United Friends, Inc., Washington, DC. I appear before you on behalf of the Taiwan Textile Federation, which is made up of all the 20 textile and apparel trade associations in Taiwan, in opposition to S. 680.

The Taiwan Textile Federation is strongly in opposition to S. 680 because:

One, S. 680, if enacted into law, would mean a substantial rollback of textile and apparel trade between our two countries. Such a trade rollback not only will mean large numbers of workers being laid off on the production lines in my country but will also mean large numbers of layoffs in supporting industries on both sides of the Pacific and on your Atlantic and gulf coasts.

Two, The American textile industry is already well protected through (a) a higher than average tariff rate—average is about 22.3 percent for textile products versus 5 percent average for other goods, and this is probably one of the main reasons the United States is collecting more duties from Taiwan, Hong Kong, and Korea, as a group, than from all the EC countries; (b) no GSP treatment for textile and apparel imports; and (c) import quotas under bilateral agreements, at least for my country, for over 20 years.

Furthermore, enactment of S. 680 into law would mean a breach of the United States' obligations under the MFA, and its obligations under the many bilateral agreements it has with many countries all over the world, most of them developing countries.

All of the above have been outlined in detail in the two written statements submitted to the subcommittee. However, here I would like to use my remaining minutes to tell you about actions my country has taken to try to improve the trade balance between our two countries.

In the past few years my government has taken the following steps to facilitate the importation of goods into Taiwan:

One, staged reduction of the 20 percent uplifting of customs valuation of imported goods. We are now at the last 5 percent uplift stage. By next January 1, it will be down to zero. This action in effect means a 20-percent net reduction on all import charges.

Two, placing more and more items on the automatic licensing list. Out of about 27,000 items in our customs classifications code, all of which used to require import licenses, there are now 8,400 items on the automatic licensing list. And of this amount, about half of them are in the textile and apparel area. And there are about another 3,000 items pending.

Three, substantial reductions have been made in import tariff rates. For example, between 1984 and 1985, duties were reduced on 393 textile items. Average reductions range from 16 percent on yarn and thread to 27 percent on apparel, to 34 percent on textiles.

Four, organizing from time to time procurement missions to the United States to buy American products in various States of the

Union. The latest mission arrived in Los Angeles last Saturday to begin a series of buyings estimated to be worth $350 million.

We understand all of the above cannot immediately eliminate totally the trade imbalance between our two countries, but they are at least some good starts.

In view of these points, I respectfully urge the subcommittee to reject S. 680.

Thank you.

Senator CHAFEE. Thank you very much, Mr. Hu.

Mr. McNeill.

[Mr. Hu's written testimony follows:]

TESTIMONY
OF
T. W. HU
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE
SENATE FINANCE COMMITTEE
SEPTEMBER 23, 1985

Mr. Chairman and Members of the Committee, thank you for allowing me to appear before you to express the concerns of the people in the Republic of China on Taiwan, particularly those in the textile and apparel industries.

My name is T. W. Hu. I am President of the United Friends, Inc., an international business consulting company registered in the District of Columbia. I appear before you on behalf of the Taiwan Textile Federation, which is made up of all the 20 trade associations in Taiwan engaged in the textile and apparel fields.

I was to be accompanied by counsel, Mr. Myron Solter; however, Mr. Solter is detained by business in Taiwan and cannot return on time. He thus begs to be excused.

The Taiwan Textile Federation is strongly opposed to S.680 because,

1. S.680, if enacted into law would mean a substantial rollback of the textile and apparel trade between our two countries, built up through the diligent efforts of citizens of both countries. Such a trade rollback not only will mean large numbers of workers being laid off on the production lines in my country, but will also mean large numbers of layoffs in

supporting industries, like those in transportation on both sides of the Pacific and on your Atlantic and Gulf coasts.

2. The American textile industry is already well protected through:

a. A higher than average tariff rate -- 22.3% for textile products vs. a 5% average for other goods;

b. No Generalized System of Preferences treatment for textile and apparel imports; and

c. Import quotas under bilateral agreements for over 20 years.

Furthermore, the enactment of S.680 into law would mean a breach of the United States' obligations under the Multi-fiber Arrangement, and its obligations under the many bilateral agreements it has with many countries all over the world, most of them developing countries.

All the above have been outlined in detail in the two written statments dated July 10, 1985 and September 12, 1985 submitted to the Subcommittee. These points have also been repeated time and again by expert witnesses testifying before the Subcommittee, so I will not bore you further. However, I would like to use my remaining minute to tell you about the actions my country has taken to try to improve the trade balance between our two countries.

In the past few years, my government has taken the following steps to facilitate the importation of goods into Taiwan:

1. Staged reduction of the 20% up-lifting of customs valuation of imported goods. We are now at the last 5% up-lift

stage. By January 1, 1986, it will be down to zero. This action in effect means a 20% net reduction on all import charges.

2. Placing more and more items on the automatic licensing list. Out of the 26,755 items in our Customs Classifications Code, all of which used to require import licenses, there are now 8,416 items on the automatic licensing list. And of the 8,416 items, about half of them are in the textile and apparel area. I understand that change with respect to another 3,000 items is pending.

3. Substantial reductions have been made in import tariff rates. For example, of the 488 textile duty classifications, between 1984 and 1985, duties were reduced on 393. Average reductions range from 16% on yarn and thread, to 27% on apparel, to 34% on textiles. More reductions are scheduled to come.

4. Organizing from time to time procurement missions to the United States to buy American products in various states of the Union. The latest Mission arrived in Los Angeles last Saturday to begin a series of tenders estimated to be worth 350 million dollars.

All the above cannot immediately eliminate totally the trade imbalance between our two countries, but they are at least good starts.

In view of these points, I respectfully urge the Subcommittee to reject S.680.

Thank you again for allowing me to testify~~ing.~~

Before The

SUBCOMMITTEE ON TRADE OF THE COMMITTEE ON FINANCE

UNITED STATES SENATE

SUPPLEMENTAL STATEMENT OF THE TAIWAN TEXTILE FEDERATION IN OPPOSITION TO S. 680 AND THE PROPOSED TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

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September 12, 1985

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SUPPLEMENTAL STATEMENT OF THE TAIWAN TEXTILE FEDERATION IN OPPOSITION TO S. 680

This statement supplements the statement of July 10, 1985, filed with the Subcommittee On Trade of the Committee on Finance on behalf of the Taiwan Textile Federation, 22 Ai Kuo East Road, Taipei, Taiwan. The statement was prepared by Tsu-Wang Hu, who is duly registered under the Foreign Agents Registration Act, Registration No. 3083 (United Friends, Inc.), and by Myron Solter, Special Legal Counsel, Foreign Agent Registration No. 1970. The Taiwan Textile Federation (hereinafter referred to as "TTF") embraces within its membership all the trade associations in Taiwan engaged in the manufacture of textile and apparel products. All textiles and apparel imported from Taiwan into the United States are produced by members of the organizations constituting the TTF.

The TTF wishes to thank the Trade Subcommittee for this opportunity to present its views. We do not presume to attempt to advise the United States Congress on what steps it should take to solve the U. S. textile industry's problems. Our presence here expresses our deep concern over the unhappy consequences to all of us that would surely follow from enactment of S. 680 and H.R. 1562. We have a saying: "When the United States sneezes, Taiwan catches cold". Because of the economic power of the United States, any disorder, even minor, in its body economic is certain to produce major impacts in Taiwan and in many other of America's trading partners. It is this grave concern and the reasons for it that we wish to communicate to you.

I. SUMMARY

The United States' textile and apparel industries are having difficulties. Their production, shipments, and employment are down. Their prices and profits have been depressed. Increased imports are concededly an important factor in causing that distress. The domestic producers urge that the existing quota system of the Multifiber Agreement (MFA) and related bilateral agreements plus import duties averaging 22.3 percent, are not adequate to protect it from its present difficulties and demand further unilateral quotas that would roll back 1984 import levels by some 40 percent.

We think, however, and submit, that the difficulties of the U. S. industry are not perhaps as great as they are made out to be, and that the solution lies in taking steps, both unilateral by the United States and multilateral in cooperation with the other major economic powers, to bring down the vastly overvalued U. S. dollar to parity levels that will dampen the driving force behind the import surge, make U. S. exports again competitive, and permit the existing MFA system to work as conceived.

Certain claims made by the domestic industry, particularly in its refutation of the Administration's fact sheet of June 19, 1985, are not accurate and must stand correction.

It is not true that the Administration has not acted vigorously to enforce the MFA and the bilaterals. It has instituted more than 300 new quotas since 1980, and the 99 market disruption calls it has made thus far in 1985, through August, indicate that 1985 will be a record year for such calls. The industry's attack on the Administration is really an attack on the MFA system. But the import surge which the industry complains the Administration has failed to stop was produced by forces completely outside the contemplated scope of the MFA system. It has been driven by the 100 percent appreciation of the U. S. dollar against other currencies since 1980, which by making imports infinitely cheaper has shifted the direction of export growth away from the Big-3 of Taiwan, Korea, and Hong Kong toward the European Community and similar countries, thereby shifting the bulk of the import growth away from controlled to uncontrolled categories. Within the limits permitted by the strong dollar factor, the Administration has made every reasonable effort to protect the industry.

Nor has the industry lost 300,000 jobs since 1980, as it claims. Department of Commerce data for the most recent period of 1985 show an increase of 34,000 jobs since 1980. It is true that there has been an erosion of employment since the years before 1980, but not nearly of the magnitude claimed by the U. S. producers, particularly when adjusted for technological unemployment resulting from improved labor productivity.

The industry contends that the existing duty rates, averaging 22.3 percent ad valorem, afford the producers no protection. That is nonsense. 22.3 percent is 22.3 percent, and it provides very substantial protection compared to the average of five percent that applies to the producers of all other industries.

The domestic industry claims that U. S. consumers would not suffer from the proposed legislative quotas. On the contrary, prices would rise -- sharply -- because textile and apparel prices have been suppressed since 1980 and industry profits have fallen off sharply during 1984 and 1985. Moreover, low-priced imports would eventually be driven from the market as foreign producers "trade up" to maximize unit profit under more stringent quantity limits.

An immediate effect would be the loss of about seven billion dollars in exports and/or investment funds that would not return to the U. S. to help keep interest rates down. A subsequent effect would undoubtedly be the loss of another seven billion in exports from retaliation. The combined direct effect of these trade losses would be 350,000 U. S. jobs (consumers), loss of one billion in tax revenues, loss of four billion in consumer disposable income, and 14 billion dollars less GNP.

The U. S. industry's claims of no detriment to U. S. consumers are therefore untrue and irresponsible.

Claims of "unfair" trade based on other countries' barriers to U. S. exports do not apply to Taiwan, because Taiwan is rapidly reducing or eliminating its tariff and non-tariff barriers to U. S. exports. 4,326 tariff items pertaining to textiles and apparel no longer require import licenses (are on automatic licensing), and duty rates were substantially reduced in 1985 on 393 of the 488 textile and apparel duty classifications.

Enactment of the legislative quotas contemplated by S. 680 would patently exact a high price from the U. S. economy (with corresponding negative impacts in Taiwan and other countries). If these stiffer quotas would definitively solve the problems of the U. S. textile and apparel industries, there might be some justification for working that harm. But the fact is, this legislation entirely misses the real cause of the problem. The real cause is the extraordinarily strong dollar and the irresistible import stimulus which it entrains. The strong dollar is, in turn, caused by the U. S. federal budget deficit, attendant high interest rates, foreign borrowing to finance the deficits, and similar such complex and sometimes intractable problems. The ultimate solution can only be specific actions by the U. S. Congress and the Administration to get the dollar down, including an international cooperative effort.

It is our hope that this committee, and the Congress, will seek this true solution and will not allow itself to be misled into ineffective and enormously harmful quotas.

II. THE DOMESTIC INDUSTRY MISAPPREHENDS IMPORTANT FACTS AND CONSEQUENCES

In June of this year, the secretaries of State and Commerce, the United States Trade Representative, and other cabinet level officials registered the Administration's opposition to S. 680 and H.R. 1562 ("The Textile and Apparel

Trade Enforcement Act of 1985") and made public a fact sheet supporting its position. Similar arguments have been made by other organizations, including our July 10, 1985, statement to this committee on behalf of the Taiwan Textile Federation.

In hearings before the Ways and Means Committee of the House of Representatives in July, the domestic textile and apparel industries presented "Answers to the Administration's Fact Sheet on Implications of the Textile Quota Bill". The domestic industry's "answers" in some respects do not accord with the facts, misapprehend the probable consequences of quota legislation, and ignore the only effective long-term remedy. This part corrects and places in perspective the main points made in the domestic industry's answers.

A. It Is Not True That The Administration Has Not Acted Forcefully To Protect The Domestic Industry

When it is complained that the Administration has not been assiduous in protecting the domestic textile industry, it is actually a complaint against the mechanisms of the MFA and the bilaterals. The increase in imports that has occurred since 1980 was contemplated by the agreements in the sense that controlled imports are only those specific category limits on particular countries that were negotiated plus restraints added from time to time on the basis of market disruption calls. There is no doubt that, within the scope of these agreements, the Administration has used every reasonable means to control the growth of imports.

What was not contemplated was the effect of the overvalued dollar as the irresistible force driving the increase in textile and other imports. This factor is treated separately in Part IV below. Not only has the overvalued dollar produced an increase in textile imports beyond that contemplated by the negotiators of the MFA and the bilaterals, it has also distorted the expected trade pattern by shifting the increases from lower-cost suppliers, such as the "Big-Three" (Taiwan, Korea, and Hong Kong), to higher-cost suppliers, such as the European Community, and has been a major factor in the rise of uncontrolled versus controlled imports. This is seen from Table No. 1.

Table No. 1. U. S. Textile Imports, Percent Change, January-June, 1984, to January-June, 1985.

Category	Total	Taiwan	Big-3	EC	Contrl'd	Uncontrl'd
0-Total	+ 1.27	- 9.95	- 9.22	+36.97	-10.49	+27.27
1-Apparel	+ 5.28	- 6.22	- 5.00	+49.43	- 3.82	+65.26
2-Non-Apparel	- 2.15	- 1.98	-15.90	+35.92	-19.70	+18.10
11-Yarn	- 4.63	-35.37	-36.62	+51.77	-43.67	+ 5.24
12-Fabric	-10.03	- 0.72	-10.71	+30.84	-18.54	+ 8.67
14-Other	+13.15	-24.27	-19.74	+49.89	-14.77	+19.74

Source: Major Shippers Report, June, 1985, Office of Textiles & Apparel, Department of Commerce.

It is strikingly apparent from Table No. 1 that the recent growth in textile and apparel imports has occurred primarily in the uncontrolled categories and that a large part of this growth has occurred in imports from the EC whose prices the overvalued dollar has most advantagously affected. It is also equally evident from this table that Taiwan and the other two big-three countries have suffered very significant cutbacks in their exports to the United States.

But despite the hampering effect of the strong dollar, the Administration has made vigorous efforts to aid and protect the U. S. textile and apparel industries. More than 300 new quotas have been put in place. As the incease in imports has accelerated, so, too, has the Administration accelerated the number of market disruption calls:

Year	No. Of Calls
1981	18
1982	38
1983	112
1984	109
1985(Jan-Aug)	99

Source: 1981-1984, U. S. International Trade Commission. 1985, Office of Textiles and Apparel, Department of Commerce.

Based on the first eight months, it is probable that 1985 will see more calls than any year in the history of the textile agreements.

Demonstrably, the Administration's efforts have succeeded quite substantially in slowing the rate of growth of imports, as is evident from Table No. 2.

Table No. 2. U. S. Textile And Apparel Imports, Quantity And Rate Of Growth, 1981-1985 (millions of SYE).

Year	Quantity	Percent Change
1980	4884.373	--
1981	5775.307	+18.2
1982	6104.365	+ 5.7
1983	7706.014	+26.2
1984	10151.446	+31.7
(Jan-Jun) 1984	5163.303	--
(Jan-Jun) 1985	5228.815	+ 1.3

Source: Ibid.

Here we see that, on the basis of the first half of this year, the 1985 rate of increase in imports has been slowed to 1.3 percent as compared to 31.7 percent for 1984, and 26.2 percent for the preceding year. While other factors, such as market forces, may have contributed to the decline, the principal factor has been the additional restraints put in place by the Administration under the agreement mechanisms. Absent the uncontrollable effects of the strong dollar, the cutback manifestly would have been quite severe.

B. It Is Not True That 300,000 Jobs Have Been Lost By The Textile-Apparel Sector Since 1980

Domestic industry representatives frequently assert that the textile-apparel sector has lost 300,000 jobs since 1980, which presumabably means a reduction of 300,000 in the number of persons employed in those sectors. That claim is not supported by the facts, as Table No. 3 shows.

Table No. 3. Employment In The U. S. Textile And Apparel Industries, 1980-1985 (thousands)

Year	Textiles	Apparel	Total
1980	737	1,079	1,817
1981	712	1,059	1,771
1982	642	983	1,625
1983	741	1,163	1,904
1984	746	1,197	1,943
1985(May)	701	1,149	1,850

Source: Survey Of Current Business, U. S. Department of Commerce, Vol. 65, No. 6, June 1985, and preceding issues. May seasonally adjusted.

Thus, the authoritative data of the Department of Commerce show, not a decline of 300,000 persons employed in the textile and apparel sectors, but an increase of 34,000 such employees between 1980 and May, 1985.

Average hours worked, in Table No. 4, show a modest decline.

Table No. 4. Textile and Apparel Industries, Average Hours Worked Per Week, 1980-1985.

Year	Textiles	Apparel
1980	40.1	35.4
1981	39.6	37.8
1982	37.5	34.7
1983	40.4	36.2
1984	39.9	36.2
1985	39.2	35.1

Source: Ibid.

Thus, hours worked in apparel fell only 0.8 percent between 1980 and 1985, and hours worked in textiles fell only 2.2 percent -- hardly declines of a magnitude that would support claims of a 300,000-person loss of jobs. In truth, there has been a decline in the number of persons employed in the textile and apparel industries since the period before 1980, which, however, especially when adjusted for substantial improvements in labor productivity, falls very far short of the exaggerated claims of the domestic industry.

C. The Existing 22.3 Percent Average Tariff On Imported Textiles Affords Substantial Protection To The Domestic Industry

The domestic textile and apparel industry claims entitlement to the higher tariff protection it enjoys "because of the import sensitivity" which its products have. All other U. S. industries make do with a protective tariff averaging only about 5 percent; and some of those industries are equally or even more import sensitive than the textile and apparel industries. Thus, when considering special measures to grant this industry quota protection over and above that already provided by the MFA and the bilaterals, the exceptionally high tariff which the industry already enjoys must be factored into the equation. It should not be omitted from consideration, as the domestic industry urges, as exceptional protection to which the industry is entitled as of right because of its import sensitivity.

To the further claim that the protection afforded by the tariffs is being eroded by the strong dollar to "only a fraction of the protection" these rates provided at the time of the last escape clause recommendation by the International Trade Commission, it must be remembered that most of these tariffs are ad valorem and maintain the same percentage cost impact whether prices rise or fall, and those that are specific become an even greater protection as import prices fall. The argument that 22.3 percent of protection is not 22.3 percent of protection therefore is simply not tenable. The industry's relating of rising imports to the strong dollar problem is, however, quite correct and this cause is discussed at length in Part IV, below.

D. Contrary To The Domestic Industry's Claims, Consumers Would Pay Dearly For Additional Quota Protection For the Textile And Apparel Industries

The domestic industry contends that additional quota protection for its products would not raise prices, would not provoke retaliation by the United States' trading partners, and that the detriment to textile workers if additional quotas are not imposed would outweigh damage to other consumers. These assertions are not supported by the facts.

1. Prices Would Rise Sharply

Textile producers' prices have been depressed for several years, relative to general price levels in the United States, and corporate profits in the industry have been declining since 1984, which is seen from Tables 5 and 6.

Table No. 5. Producers Price Indices Of Textiles And Apparel And All Commodities, 1980-1985.

Year	Textiles & Apparel	All Commodities
1980	100.0	100.0
1981	108.8	124.5
1982	111.5	128.7
1983	111.8	128.7
1984	114.4	131.7
1984(May)	114.7	132.2
1985(May)	114.8	131.5

Source: Ibid.

Table No. 6. U. S. Textile Industry, Quarterly Profits, 1983-1985.

Year	Quarter	Millions Of Dollars
1983	I	241
	II	461
	III	483
	IV	376
1984	I	413
	II	535
	III	363
	IV	309
1985	I	191

Source: Ibid.

It is thus quite evident that textile managers are under strong pressure to raise prices, and it may accurately be assumed that they would do so within days of the imposition of new import quotas.

It is also evident that the prices of imported textiles and apparel will rise with the imposition of additional quotas. In quota situations, exporters have historically sought to maximize unit profit by following domestic industry price increases upward, first with products of the same quality as those hitherto exported, then eventually "trading up" to higher quality products to maximize the amount of profit per unit. Trading up coincidentally damages domestic producers by increasing competition in the higher-end product lines where domestic industry usually has more favorable comparative cost advantage.

Thus, consumers would very quickly be subjected to price increases in both domestic and imported articles and lower-end articles would tend to be driven out of the market. Domestic claims to the contrary defy both experience and logic.

2. It Cannot Be Assumed That The Textile Exporting Countries Would Not Retaliate

As we noted in our Statement of July 10, 1985, to this Committee, the rollback in textile and apparel exports to the U. S. which S. 680 would impose would represent a loss to Taiwan of about one billion dollars in dollar exports and a loss of about 7 billion dollars to all textile exporting countries. Even if the exporting countries did not retaliate as they are entitled to do under the GATT, the rollbacks represent 7 billion dollars annually in potential U. S. exports which will not be sold and/or funds which will not return to the U. S. as loans to finance the trade deficit and coincidentally help keep U. S. interest rates down. The overall damage to the U. S. in terms of loss of jobs in U. S. export industries, loss of GNP, loss of tax revenues, and loss of disposable consumer income, while difficult to quantify precisely, is obviously quite substantial.

But in addition to that loss to the U. S. economy, additional losses from retaliation can be expected. In reply to that statement, the U. S. industry urges that retaliation could be forestalled by a GATT waiver similar to that utilized by the European Community when it took comparable action in 1977.

We suggest that it would be unrealistic to assume that retaliation could be thus forestalled. The present mood of the textile exporting countries is different from that of 1977.

textile exporting countries is different from that of 1977. The losses which S. 680 would inflict upon most of them are substantially greater now than in 1977. Import penetration in the U. S. was only 23 percent in 1983, while penetration in the EC had reached 46.7 percent, making a far more sustainable case for waiver in favor of the EC (U.S. International Trade Commission data). We think it doubtful, if the U. S. should break the faith implicit in the MFA and the bilaterals by enacting this legislation, that any significant number of textile exporting countries would sign a waiver foregoing retaliation.

The domestic industry argues that, even if the textile exporting countries should retaliate, it would have little impact in the United States because of the recent decline in U. S. agricultural and other exports suitable as targets for retaliation. That decline results primarily and directly from the strong dollar, which situation will eventually be remedied. The United States is still a highly efficient producer of grains and other agricultural commodities and of high-tech and other innovative products, and as the U. S. dollar regains a more reasonable parity with other currencies, those exports will rise -- that is, they should rise if not subjected to retaliatory restrictions in other countries.

3. If S. 680 Should Be Passed, Detriment To the U. S. As A Whole Would Far Exceed Any Detriment To The Textile And Apparel Industries

In summary, enactment of the Textile And Apparel Trade Enforcement Act would, as a certainty, produce the following chain of consequences:

1. Textile and apparel imports would be rolled back by 40 percent immediately.

2. The U. S. would lose exports and/or capital inflows equal to approximately seven billion dollars annually.

3. Retaliation, if in full and of equal measure, would produce the loss of another seven billion dollars in annual exports.

4. Using the same hypothetical factors used by the Commerce Department to relate trade volume to loss of jobs and to other impacts on economic values in the U. S., a 14-billion dollar reduction in exports, would cost 350,000 U. S. jobs, lower tax revenues by about one billion, lower consumer disposable income by 4 billion, and lower GNP by 14 billion dollars.

The foregoing losses, while hypothetical, nevertheless indicate the rough magnitude of the mischief and damage which S. 680 would cause to the United States. This damage would be now, in 1986, not in the speculative future of 1990 in which the domestic industry's fantasy estimate of 1,890,000 jobs lost is placed.

Certain it therefore is that the losses entrained by S. 680 would far outweigh whatever damage failure to pass this legislation would cause to the textile and apparel industries in the remote future.

III. TAIWAN IS RAPIDLY LOWERING ITS BARRIERS TO TEXTILE AND OTHER IMPORTS

The domestic textile and apparel industries frequently point to the United States' negative trade balance in textiles as evidence of "unfairness" in the textile trade and as a factor justifying further import limitations in the United States. Attention is also frequently called to tariffs and non-tariff barriers to U. S. exports generally -- with Japan the most frequently mentioned target -- as additional justification for import restrictions including more stringent textile quotas. But, the negative trade balance argument misconceives the essential nature of trade, and, at least in the case of Taiwan, the U. S. export barrier argument is misplaced because Taiwan is rapidly lowering its tariffs and NTB's.

It is wholly unrealistic to believe that the United States or indeed any country can expect to export an equivalent value of the same products that it imports, e.g., textiles for textiles. In the heat of controversy, it is apparently easy to forget fundamental simplicities, such as the fact the vast bulk of trade is driven by price differentials based on comparative cost differences. If cost patterns in the United States are such that broad categories of textiles can be imported more cheaply than domestic textiles can be produced, there is very little possibility of equilibrium in a "textile balance of trade". Only if the U. S. dollar should undergo a deep devaluation could foreign demand for large quantities of U. S. textiles develop.

Thus, the domestic industry's "textile balance of trade" argument is not valid.

But, in any event, Taiwan is rapidly reducing its barriers to imports, not only from the United States, but from its other trading partners as well.

There are 26,755 items in the Taiwan Customs Classification Code. Of those, 8,416 items are classified as automatic licensing, that is, import licenses are automatically granted upon application. Of the 8,416 automatic licensing items, more than one-half, 4,326, pertain to textiles, apparel, and other similar products, as follows:

Category	No. Of Items
Textiles and apparel	4,233
Leather apparel	33
Fishing nets	4
Typewriter ribbons	3
Luggage, handbags, & flatgoods	53

Source: Taiwan Textile Federation

An additional 3,087 general items are scheduled to be placed under automatic licensing in the near future.

Large reductions are also being made in import duty rates. For example, of the 488 textile duty classifications, between 1984 and 1985 duties were reduced on 393, 6 are free, and 89 remained without change. Table No. 7 shows the average percent reduction by broad product categories.

Table No. 7. Average Reduction Of Textile Import Duties In 1985 (in percent).

Category	Percent Reduction
Fibers	17
Yarn & thread	16
Textiles	34
Apparel	27
Other finished products	39

Source: Taiwan Textile Federation.

Consequently, although "unfairness" in the textile balance of trade context is not a valid argument for further restriction of textile imports, if should not in any event be applied to Taiwan because of the rapid steps being taken to reduce or eliminate its barriers to U. S. and other countries' exports.

IV. THE REAL PROBLEM OF THE DOMESTIC TEXTILE AND APPAREL INDUSTRIES IS THE 100 PERCENT OVERVALUATION OF THE U. S. DOLLAR, AND MORE IMPORT QUOTAS WILL NOT SOLVE THAT PROBLEM

The increase in U. S. imports of textiles, and indeed of most other products, between 1980 to 1984 has been price driven. The single most important, and perhaps only, force driving this movement has been the appreciation of the U. S. dollar to levels unprecedented in recent history. Attempting to cap that pressure with more textile quotas might afford the domestic industry but momentary relief, but would do nothing to remedy the underlying cause, which would very quickly resurface to continue the erosion of the textile industry. Quota legislation is like pasting a bandaid over the surface manifestation of a deep-seated infection, which will continue to fester and grow. After all, the domestic textile and apparel producers have been protected by stringent quotas for quite a long time, but those quotas have not prevented the present situation. It is far wiser for the Congress, and the Administration, to identify the true cause of the underlying problem accurately and to address it with specific remedies.

The U. S. dollar has apprted steadily since the second quarter of 1980:

Table No. 8. Index of U. S. Dollar Versus 22 OECD Currencies, Quarterly Average, 1980-1985 (May 1970 = 100, Trade Adjusted Average).

Year	Quarter I	II	III	IV
1980	89.3	81.0	82.0	85.0
1981	99.5	106.4	111.9	107.7
1982	114.8	118.9	124.2	124.9
1983	125.1	127.6	132.6	133.8
1984	137.2	142.6	150.1	155.9
1985	162.8			

Source: Survey of Current Business, supra.

Incredibly, the U. S. dollar in the first quarter of 1985 stood 101 percent higher than it did in the second quarter of 1980, creating a powerful vacuum sucking in imports of all products. Remedial action by the United States must address the causes of the overvalued dollar, not treat merely the symptom.

The main factor in pushing up the dollar has been the rising federal budget deficit and its derivative effects on interest rates in the United States. In 1984, the deficit stood 194 percent higher than in 1980.

Table No. 9. Deficit In The Federal Budget
1980-1984 (billions of dollars)

Year	Deficit
1980	59.6
1981	57.9
1982	110.7
1983	195.4
1984	175.3

Source: Survey Of Current Business, *supra*.

The secondary and very important factor is the deficit in the United States' trade balance, the financing of which from foreign capital sources has the effect of further bidding up dollar exchange rates, which in turn worsens the situation and maintains a vicious circle. Actions can be taken to break that circle.

For example, the U. S. Treasury in 1984 removed the withholding tax on interest payments to foreigners, eased Treasury regulations on mandatory identification of buyers and holders of U. S. securities, and placed two billion dollars of Treasury securities abroad at a price 30 basis points below domestically available Treasury securities of comparable maturities. As a result of such actions, U. S. Treasury securities held by foreigners increased from 33.9 billion in 1983 to 56.9 bilion in 1984.

The Treasury Department, of course, has the responsibility to cover the deficit. However, these actions had the effect of adding to the upward pressure on the dollar, and are cited to show that there is room for various steps that can be taken by the Congress and by the Administration to attack the real causes of the distress being felt by the textile and apparel and indeed many other industries in the United States, including those export industries whose difficulties constitute the obverse of the coin.

Ultimately, it seems likely that the problem will have to be solved by cooperative efforts by all the economic powers. Only the United States has the economic "clout" to engender such a cooperative effort, and we urge that it be started now. The first step in that program is not to pass S. 680 and its companion legislation in the House of Representatives.

Respectfully submitted,

TAIWAN TEXTILE FEDERATION

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STATEMENT BY ROBERT L. McNEILL, EXECUTIVE VICE CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE, WASHINGTON, DC

Mr. McNEILL. Thank you, Senator Chafee. I am pleased to be here this morning to express the opposition of the Emergency Committee for American Trade to S. 680.

While the people that make up the membership of my group are sympathetic to the plight of those domestic producers and workers who are adversely impacted by competitive imports, we believe that the correct and preferred way to provide protection for that industry is through the renegotiation and the extension of the Multi-Fiber Arrangement [MFA], which, indeed, is under discussion presently in Geneva.

The MFA and its predecessor arrangements have the very great benefit of having been negotiated pursuant to the GATT. The GATT umbrella, therefore provides immunity, if you would, from retaliation on the part of those exporting countries who are party to the large number of bilateral quota arrangements negotiated by the United States and others pursuant to the MFA.

If S. 680 were to pass, then the United States would unilaterally be imposing its own grid of legislated import quotas that would place us in violation of our commitments under the GATT and subject the United States to retaliation on the part of exporting countries.

Since the 60 members that I represent account for about over one-half of total exports from the United States each year, it is my members who in part would have to pay the price of economic retaliation on the part of our trading partners.

We are further concerned in ECAT with the damage that passage of S. 680 would do to overall U.S. trade policy. We are hopeful that the United States and its trading partners will initiate a new round of trade negotiations. The chances of a new round of negotiations would be severely impaired should the United States take such action as contemplated in S. 680.

There are a number of objectives that we in ECAT would like to see accomplished through a new round of trade negotiations, including new codes on such things as the protection of intellectual property rights, and a number of other nontariff barrier areas. The prospects for getting benefits for the United States through such negotiations, would be torpedoed were S. 680 to be enacted.

So, in brief, Mr. Chairman, we are opposed. We would hope that the industry would be satisfied with the renegotiation and extension of the MFA. That certainly seems to be a more commonsense approach.

I thank you.

[Mr. McNeill's written testimony follows:]

Emergency Committee for American Trade 1211 Connecticut Ave Washington DC 20036 (202)659-5147

STATEMENT

OF

ROBERT L. McNEILL, EXECUTIVE VICE CHAIRMAN

EMERGENCY COMMITTEE FOR AMERICAN TRADE

BEFORE THE

SENATE FINANCE INTERNATIONAL TRADE SUBCOMMITTEE

HEARING ON

S.680

THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

Monday, September 23, 1985

Emergency Committee for American Trade 1211 Connecticut Ave Washington DC 20036 (202)659-5147

SUMMARY

1. The Emergency Committee for American Trade (ECAT) opposes enactment of S.680.

2. While sympathetic to the plight of those experiencing severe import competition, ECAT believes that the preferred way to regulate trade in textiles and apparel is through renegotiation and extension of the MultiFiber Arrangement (MFA).

3. Import relief through the MFA avoids the retaliation against U.S. exports that would occur through enactment of legislated import quotas. Such retaliation would be most harmful to the national economic and political interests.

4. Enactment of the bill would cause dramatic damage to U.S. trade policy interests, including the likely torpedoing of a new round of trade negotiations that is essential to furthering U.S. economic interests through the development of rules that will provide greater equity in the international trading system.

Emergency Committee for American Trade 1211 Connecticut Ave Washington DC 20036 (202) 659-5147

STATEMENT OF ROBERT L. McNEILL, EXECUTIVE VICE CHAIRMAN
EMERGENCY COMMITTEE FOR AMERICAN TRADE
BEFORE THE
SENATE FINANCE INTERNATIONAL TRADE SUBCOMMITTEE
HEARING ON
S.680
THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985
Monday, September 23, 1985

Mr. Chairman, thank you for this opportunity to express the opposition of the Emergency Committee for American Trade (ECAT) to S.680, a bill that would establish a grid of quotas for imports of textiles and apparel products.

While sympathetic to the plight of those domestic producers of textiles and apparel who are experiencing severe import competition, we firmly believe that the preferred way to regulate trade in textiles and apparel is through renegotiation and extension of the MultiFiber Arrangement (MFA), which expires in July, 1986. Indeed, preparations for such negotiations are underway.

The MFA and its predecessor arrangements have been negotiated under the auspices of the GATT. The numerous bilateral restraint agreements negotiated by participating countries under the MFA umbrella, therefore, have the "blessing" of the GATT. The practical consequence of this "blessing" is that the bilateral quota agreements are not violative of the GATT and, therefore, not subject to retaliation.

The quotas called for in S.680 would unilaterally abrogate U.S. participation in the MFA and place us in violation of our GATT obligations. Exporting countries would have a clear right to retaliate against their imports from the United States. International trade disputes of the kind that could be set off by passage of S.680 would severely impact the economic health of our members who are among the nation's largest exporters and overseas investors.

The Multi-Fiber Arrangement

Since 1974, the U.S. textile and apparel industry has benefited from unprecedented import protection under the MultiFiber Arrangement (MFA). The MFA was negotiated within the GATT framework, and over 40 developed and developing countries are signatories. In 1981, the MFA was extended until July 1986. The developed country participants in the MFA are the United States, Canada, Japan, the EC, Austria, Finland, Norway, Sweden, and Switzerland. Of these, only Japan and Switzerland do not restrict imports. Australia and New Zealand do not currently participate in the MFA, but both restrict imports. Japan's textile and apparel exports are restricted under the MFA by the United States.

The United States has bilateral quota agreements with 34 nations under the MFA program. Import growth under these agreements is generally limited to 6 percent annually for each controlled category. For the "big three", Taiwan, Korea and Hong Kong, growth is limited to one-half of one percent to two percent. Throughout the 1981-85 period, the United States has increased the coverage and scope of the quota controls on textile and apparel imports.

The U.S. Government has committed vast resources to the administration of the program. Computer technology, document requirements, visa verification systems, customs enforcement, and rules of origin regulations have been enhanced to control the import of textiles and apparel.

Approximately 80% of all textile and apparel imports from developing countries are under quota. Additional protection is provided by average tariffs on textiles and apparel of 22.3%, compared to average U.S. tariffs of under 5% for other sectors.

Textile and Apparel Imports

Imports of textiles and apparel increased by 65% in the 1982-84 period due to the overvalued U.S. dollar and to strong economic recovery. Import growth, however, has recently stabilized, and imports for the first seven months of 1985 actually show a modest decline of 1.26% compared with the first seven months of 1984.

The strong U.S. dollar and consumer demand in 1983-84 created unprecedented import growth. Import increases in the 1982-84 period for sectors other than textiles and apparel include: non-ferrous metals 53%, non-electrical machinery 71%, motor vehicles and parts 58%, chemicals 58%, and rubber and plastics 52%.

Despite strong import competition during the 1982-1984 period, U.S. textile and apparel industry output increased in response to strong consumer demand. U.S. mill production increased from 9.4 billion pounds in 1982 to 10.8 billion pounds in 1984, or 13 percent.

Proposed Legislation

The proposed Textile and Apparel Trade Enforcement Act requires an extreme rollback of U.S. imports. Compared with 1984, import levels would be reduced nearly 40 percent for the major suppliers. Percentage reductions for the 12 largest suppliers (Brazil, Hong Kong, Indonesia, South Korea, the Philippines, Taiwan, China, India, Japan, Pakistan, Singapore, and Thailand) already controlled under the MFA would range from 9% to 85%.

The bill would allow virtually no growth for other smaller supplier nations such as Israel. Canada and the EC are presently exempt from the quota provisions of the bill, although they presently account for approximately 15% of U.S. imports. All countries would be subject to a new complex import licensing scheme, which would be a serious nontariff trade barrier that in itself might invite retaliation.

Consumer Costs

The Reagan Administration estimates that the bill would increase consumer costs for textiles and apparel by $14 billion per year. Prices of imported textiles and apparel are estimated to increase by 15 to 30 percent. The $14 billion cost increase is in addition to the $23 billion price tag of existing restraints under the MFA.

Domestic Production and Employment

Gains in U.S. production and employment from the bill would be small, less than 4 or 5 percent according to Administration estimates. The International Business and Economic Research Corporation (IBERC) estimates that the net domestic job increase from the bill, between textile and apparel manufacturing jobs gained and retail jobs lost, would be 9,000. The cost to the consumer for each job is estimated to be $1.5 million.

Impact on U.S. Exports

The passage of the bill would risk retaliation against U.S. exports by the adversely affected countries. In 1984, U.S. exports to the 12 largest foreign suppliers of textiles and apparel were $54 billion. Likely targets of retaliation and the value of 1984 U.S. exports to the 12, would be corn and wheat ($5.1 billion), aircraft ($3.0 billion), and cigarettes and tobacco ($750 million).

There is already evidence that countries such as China will decrease their purchases of U.S. products in response to U.S. restraints on textiles and apparel. In 1982, for example, China cancelled large grain purchases from the United States in response to the unilateral U.S. imposition of restraints on textiles and apparel. Furthermore, once a country retaliates against the United States and reduces imports as in the case of grain, the loss of market share for U.S. exports might be permanent.

Even if the impacted suppliers took no overt decision to retaliate, the effect of the bill would be to reduce their dollar earnings by $3.5 billion, a large portion of which would have gone to purchase U.S. products.

A further threat to U.S. trade would emerge if, as is being suggested, the quota bill were extended to include textiles and apparel from the EC and Canada. A "globalization" of the restraints would bolster the partisans of protectionism everywhere.

Damage to Overall U.S. Trade Policy

The bill would have serious consequences for U.S. trade policy and for the viability of the GATT system. The bill would unilaterally abrogate the MFA, 34 U.S. bilateral restraint agreements negotiated within the framework of the MFA, and the GATT. Large new cracks will open in the GATT system if the quota bill passes.

This bill is particularly ill-advised since a new MFA negotiating session began in late July in Geneva. Since the present MFA expires in 1986, the negotiations are designed to lead to a new framework for textile trade. The interests of the U.S. industry will, as they have in the past, be reflected in the position of the U.S. negotiators. The passage of the bill now before Congress would torpedo these negotiations.

Furthermore, the type of unilateral U.S. action contemplated in the quota bill would seriously damage U.S. efforts to advance its trade policy agenda. The bill would foreclose cooperation from developing countries and would result in enormous losses in U.S. exports to them. The U.S. call for a new GATT trade round would be met with deaf ears from the textile exporting countries injured by the quota bill. In addition, U.S. bilateral negotiations aimed at achieving various trade goals with such suppliers as South Korea, Brazil, India, and the ASEAN group would fail. Consequently, U.S. efforts to move trade negotiations forward on services, high technology, performance requirements, intellectual property and other issues, would be irreparably undermined.

Results such as those just suggested would certainly not serve the national interest. It is almost certain that the economic interests of ECAT members would suffer. Such damage can be avoided by not legislating S.680 and by extending the MFA in a manner that will accommodate the basic needs of the U.S. textile and apparel industries.

Senator CHAFEE. Mr. McNeill, the companies you represent are exporters to Brazil, Hong Kong, Indonesia, South Korea, the Philippines, Taiwan, China, India, Pakistan, and so forth.

Mr. McNEILL. Yes, every country in the world, sir.

Senator CHAFEE. And your point is that there would be retaliation that would cause American employees to suffer?

Mr. McNEILL. Yes, Senator. The fastest growing markets until the recent international debt crisis for U.S. exports were in those particular countries and other developing countries of the world. I think they were accounting for 40 percent of total U.S. exports. They are vitally important markets, the largest growing markets in the world. All of them are in difficulties, and I believe their difficulties would be compounded very drastically should their access to the U.S. market be curtailed for apparel and textile shipments.

Senator CHAFEE. Mr. Lundquist, hasn't there been quite a dramatic increase in the European textile exports into the United States? In other words, even though you are part of the, the Multi-Fiber Agreement [MFA], it is my understanding that the European countries are not an—this is my word—not an effective part of that MFA. You can correct me on this, but it is my understanding that those countries in Europe have not abided by the MFA, or we haven't enforced it, put it that way.

Mr. LUNDQUIST. Thank you very much. I think it's an eye for an eye. But, on your point, yes. Speaking for Italy, in certain categories imports have risen, but here again it is a question of which period you examine: if you examine the last decade you will find that the producers in Italy retrieved part of what had been lost.

Now, there is a very important point here that I think should be addressed. Fabrics and made-up goods from Western Europe are drawn into this market; they are not pushed into this market. Any textile manufacturer would concede that singular and unique point.

Senator CHAFEE. Now, you had better make that unique point a little clearer to me, that they are drawn and not pushed.

Mr. LUNDQUIST. All right.

I have something at a price. It is a fungible commodity. I drop that price—I push it into your market.

I have something that has uniqueness and style to it, and the consumers take a liking to it, and it is pulled into the market. I am sorry I was so imprecise the first time.

Senator CHAFEE. No, that's what I thought you said, and I am not sure I agree with you. Are you saying in Taiwan, Hong Kong, Singapore, it is pushed into our market, that we don't seek it?

Mr. LUNDQUIST. Of course not. And if I failed to identify my subject, it is Italy. I was referring to the Italian and Western European made goods, Mr. Chairman. I can't comment on that, but I do know that the prices are dandy if you want a long run of something or if you are interested in products that are highly competitive here.

I am saying that we shouldn't take action that will materially and negatively affect traditional suppliers if we consider action against those who have come in and if they have usurped part of the market. I can't make that judgment, but I can tell you with a certainty that Italian-made textiles are a historic and unique part of our market.

In terms of the statistics, we have never exceeded 16 or 16½ percent of any category of imports, even with our sharp increases. And you will notice on that table 3 to which I adverted——

Senator **Chafee**. Now, 16 percent of total imports into the United States?

Mr. **Lundquist**. Yes.

Senator **Chafee**. Or 16 percent of the U.S. market?

Mr. **Lundquist**. Sixteen percent of total imports in those categories. Yes, sir.

Now, in our table we have tried to calculate—and I won't take the time to go through it—where Italian prices are above and below the average unit import value in a category. And this is why I said we tend to support your steel analogy. Wool tops and yarns were below. That means we bring a perfectly made product at a reasonable price to enhance U.S. manufacturing. Woolens and worsteds were below; but, when it gets to made-up goods like suits and so forth, we are almost to 100 percent above the normal import volume.

Senator **Chafee**. Now, are you on table 3 again?

Mr. **Lundquist**. Yes, sir. And I am in the woolen category, where in the right-hand column it shows for wool tops and yarns that Italian prices are 97 percent—that means slightly below the average price.

But when it gets to goods that compete with our sewers and stitchers and tailors, our prices are way above. In other words, we are dealing with yarns and woolens at very competitive prices, to enhance the supply here and to assure that Italian quality fabrics are in the market; while at the same time, when we compete with our textile industry per se, our prices are in line and reflect the high quality of our garments.

We are very proud of Italian tailoring, right straight up and down the line.

Senator **Chafee**. All right, fine. I think the points each of you have made have been good, Mr. Weiss and his points and each of you. Thank you for coming here, gentlemen.

The final panel will be Mr. Thomson, accompanied by Mr. Hassenfeld, Mr. Fortino, and Mr. Reams; Ms. McManus, accompanied by Mr. Wasserman; Mr. Wagner, accompanied by Mr. Lewin; Mr. Lehman, accompanied by Mr. McGrath; and Mr. Trust, accompanied by Mr. Wool and Mr. Dietzel.

I want to take this opportunity to especially welcome Mr. Hassenfeld, whom I have known for many years and have worked closely with, who, amongst his other virtues, is a native Rhode Islander.

All right, Mr. Thomson, why don't you proceed.

STATEMENT BY DOUGLAS THOMSON, PRESIDENT, TOY MANUFACTURERS OF AMERICA, ACCOMPANIED BY ALAN HASSENFELD, PRESIDENT, HASBRO, INC., PROVIDENCE, RI; JOE FORTINO, SENIOR VICE PRESIDENT FOR OPERATIONS, KENNER PRODUCTS, CINCINNATI, OH; AND TIMOTHY REAMS, SENIOR VICE PRESIDENT, MATTEL, INC., HAWTHORNE, CA

Mr. Thomson. Good morning, and thank you very much.

My name is Douglas Thomson. I am the president of the Toy Manufacturers of America that represents about 90 percent of all the retail sales of toys and games here in the United States. We appreciate the opportunity to come and speak on this particular issue.

I have submitted prepared remarks, Senator Chafee, which I won't read through, but I'd just like to summarize. And I brought along a well-known trade expert to demonstrate particular points that we have in mind.

The first point is that toy products don't belong in this bill. Textile proponents appear to understand that and agree to it. The industry was not consulted in any way before toy products were included in this bill, and we have traditionally never been in the area of textiles when it came to legislation.

This industry is a growth industry; in fact, we lead the world in the development and marketing of toys. We are proud of this. We are one of the few industries in the United States that is under pressure to do this, and we have been able to—through a series of marketing methods and through the combination of sourcing overseas and manufacture domestically—to produce a growth industry which moved up in dollar value 50 percent last year.

We cannot do this unless we source overseas and supplement our domestic production here in the United States.

Numerous American jobs depend upon overseas sourcing, and I will demonstrate this in a moment. The American public enjoys the lowest price at retail for comparable products of anywhere in the world as the result of our ability to distribute in volume, to market in volume, and to source overseas and combine with our domestic manufacturing. And I would like to illustrate this, if I may, very briefly, with this particular trade expert, the Cabbage Patch Kid.

The Cabbage Patch Kid, prior to being introduced in a volume basis in 1983, was made in Georgia by hand by American workers in a sculptured form, with very limited production and employing perhaps up to 100 people, and selling for anywhere from $75 to $100 per unit. Coleco Industries of West Hartford, CT, introduced this item in 1983, and in the United States alone has shipped over 35 million of these products since 1983 and its introduction.

This is a worldwide product; it is a household name. They are shipped into the United States in bulk, inspected, finished, packaged, quality inspected, and we estimate there are about 2,500 jobs alone that have been produced by this introduction of Cabbage Patch Kids into the United States.

In addition to that, the popularity of the product has allowed for licensing of the name through any number of other products, and we are estimating at the present time that there are probably

15,000 to 20,000 people in the United States involved with the licensing, the promotion, the advertising, the selling, the retailing, and other activities of this particular product. This would simply not have been able to have been done if we had not been able to source it overseas. Restrictions on products like this would inevitably raise the price, reduce the supply, it would not help the textile industry in any way whatsoever, it would not add, in all probability, one additional job in the United States, and in all probability it would reduce the employment.

I have with me today Mr. Hassenfeld, who you have mentioned, the president of Hasbro Industries, but also he is the chairman of the Toy Manufacturers of America. We have two other executives, Mr. Tim Reams from Mattel of Hawthorne, CA, and Mr. Joseph Fortino of Kenner Products of Cincinnati, OH, and we would appreciate the opportunity to let them discuss their particular products. Thank you very much.

Senator **CHAFEE**. All right. Let's do this. Why don't you, Mr. Hassenfeld, make some comments, and tell us a little bit about your situation and how this legislation, if unaltered, would affect your company?

Mr. **HASSENFELD**. Mr. Chairman, thank you. I am Alan Hassenfeld, president of Hasbro and chairman of the Toy Manufacturers Association of America. I have already submitted in writing a statement, but I do wish to add some further comments today.

First, our association represents over 250 toy companies in the United States. Approximately 90 percent of all toys which are sold at retail are represented by those companies that are a part of the association.

Never have we been a part of the textile industry; yet, to the surprise of all in our industry and until we began to tell our story down here in Washington, most Members of both the House and the Senate had no idea, no conception that the toy industry had been put into both the House version and the Senate version, Senate 680.

So, too, those who have drafted the bill, the textile lobbies and the textile associations, so, too, they agree that they do not believe that we should have been included in this bill, and have made overtures to us that we should be taken out.

Yet, even though everybody believes that we shouldn't be here, yet here we are, fighting for our life.

This young lady who is sitting in front of me has entertained many a child for over 50 years. Her name is Raggedy Ann. Raggedy Ann today is being imported from overseas. She basically costs approximately $4 to make and to land; by the time overheads are added, she is sold by us at about $7.25, and in turn retails for approximately $11.99. This same product being costed in the United States would cost approximately $8.20, pure fabrication, no overheads allocated. By the time overheads are allocated, it would cost $16 and in turn have to retail for approximately $26.99, an increase of over 125 percent.

There are many other products that are similar in nature to this on the component side, such as doll's dresses, plush animals, skins for plush animals. All of these have many, many jobs at stake here in the United States. These jobs are in the design area, the engineering area, the manufacturing area.

This bill was meant to protect American workers. The one unique thing about this bill if the toy industry is included: it will do anything but protect American workers in our industry; but instead, it will have a devastating effect on a loss of jobs for our industry.

Robert Frost wrote a wonderful poem which is quite apropos; it is called "Mending Walls." He wrote: "Before I build a wall, I'd ask to know what I was walling in or what walling out."

Mr. Chairman, please understand the irreparable damage to our industry if this wall is built without understanding the facts we lay before you. We are in a very serious situation.

Thank you for hearing.

Senator CHAFEE. Thank you, Mr. Hassenfeld.

I think it would be helpful if you would just take your own company regarding jobs. This is what this whole business is about: it is about jobs. That is why the proponents are pushing this legislation so vigorously. So, take your own company—how many people do you employ, how many people would you not employ or what your decline in employment would be, if that nice young lady Raggedy Ann went from $11.99 to $26.99.

Mr. HASSENFELD. First of all, I doubt that there would be a market for Raggedy Ann in this size at $26.99. As a matter of fact, I know that there wouldn't be a market. It would be the same thing as asking if there would be a market for Cabbage Patch dolls and what the consumer could pay—maybe $129 for one Cabbage Patch doll rather than the $39 or the $29 they are paying today.

As far as Hasbro Industries is concerned, I would imagine that between the State of Washington, the State of Rhode Island, and the State of Massachusetts, we would be looking at a loss of jobs probably in the vicinity of 600 to 750 out of a total employment now of approximately 4,500 people.

Senator CHAFEE. I see. So, percentagewise, it is a pretty good drop.

All right. Thank you very much, Mr. Hassenfeld.

I'll tell you what, let's do this here. Let's take the other gentlemen and Ms. McManus, and then we can shift around.

Ms. McManus, why don't you proceed?

[Mr. Thomson's and Mr. Hassenfeld's written testimony follows:]

STATEMENT OF

DOUGLAS THOMSON, PRESIDENT
TOY MANUFACTURERS OF AMERICA

When S.680 was drafted, plush toys were included even though their value and character are not determined by textile content. It is the appearance and play value which determines the product's marketability. There seems to be substantial agreement among the textile proponents of this bill that the toys in question should be excluded, and we respectfully request that such action be taken.

The toy business can be described as a fashion business - except that much of our retail sales fall in the fourth quarter of the year. It is always difficult to predict the public's reaction and interest in products as they approach the holiday season. And, without restrictions, we come under a certain amount of public criticism for shortages of some popular products in the marketplace. In my judgment, import restrictions can only contribute to further difficulties in meeting demand and, in all probability, higher prices as supply is shrunk. It is doubtful that restrictions would add additional manufacturing jobs because the retail prices needed simply will not support the cost of U.S. labor. However, restrictions could easily have a negative effect on the many planning, warehouse, inspection, sales, marketing and promotion positions created by the growth of the toy industry, as consumers shift their discretionary spending.

The Textile and Apparel Enforcement Act of 1985 was drafted to limit imports of textile and apparel products such as trousers, blouses, shirts, skirts and sweaters which are currently subject to the restrictions of the Multi-Fiber Arrangement. Plush toys and dolls

The Toy Manufacturers of America (TMA) appreciates the opportunity to appear before this committee to discuss S.680. My name is Douglas Thomson and I am the President of the toy trade association which represents over 250 members manufacturing and importing toys and games. We estimate that our members account for over 90% of dollar sales of toys and games in the United States.

The U.S. toy industry leads the world in the development and marketing of toys. Our brand name products are found in virtually every country in the world and our marketing methods are looked at as benchmarks.

The products are heavily labor oriented since they are generally small for use by small hands, require authenticity, decorations and minute details. The industry has grown steadily and members have developed programs for sourcing from overseas those products requiring extensive hand labor to supplement larger, machine-made products manufactured domestically. The result is that identical well-known toys are less expensive to the U.S. consumer than anywhere else in the world. Dolls, stuffed animals and dolls' clothing are particularly labor intensive and are largely manufactured overseas.

Congress has recognized that developing countries need opportunities to manufacture products such as these, and has granted duty free status to these products through the Generalized System of Preferences and the Caribbean Basin Initiative. Most of these products are manufactured in Korea, Haiti, Taiwan and Hong Kong.

have never been subject to these restrictions. The textile content of these products is miniscule when compared to the total U.S. textile consumption. Thus, to include these toys and doll products within the scope of the Textile and Apparel Enforcement Act of 1985 would devastate the U.S. toy industry while having little, if any, effect on domestic textile production.

TMA therefore believes that toys, dolls and dolls' clothing must be excluded from the provisions of the Textile and Apparel Enforcement Act of 1985. This can easily be accomplished simply by deleting Subpart E of part 5, Schedule 7, from the bill's coverage, since all the effected toy products fall within this subpart, which contains no products of interest to the textile and apparel industry. TMA submits that Congress should not take sides in favor of one industry to the detriment of another through the enactment of this legislation. The exclusion of toy and doll products from this bill would save the U.S. domestic toy and doll industry from incalculable harm and would have no discernable effect on the U.S. textile industry.

Thank you for your time and interest.

STATEMENT OF

ALAN G. HASSENFELD, PRESIDENT
HASBRO INC

My name is Alan G. Hassenfeld. I am both the President of Hasbro Inc., Pawtucket, Rhode Island and the 1985 Chairman of the Toy Manufacturers of America. I appreciate being afforded time to discuss with you my concerns about the inclusion of certain toys and dolls'clothing in S680 Textile and Apparel Trade Enforcement Act of 1985.

Mr. Thomson has put forth an overall view indicating we do not believe it is appropriate to include these products in any group on which import restrictions are to be considered. I would like to add my voice to support his statement and to mention several specific points which I trust you will take into consideration.

For many years, now, toy firms have gradually moved to offshore sourcing for those items of high labor content which cannot be manufactured economically here in the United States. These are required to meet consumer price points, supplement domestic manufacturing and sustain the growth of our industry. The positioning of the American Toy Industry as the world leader has created numerous jobs for American citizens. My firm, Hasbro Inc, has grown very rapidly in recent years and we now employ close to 4,000 people in the United States.

The toy industry is characterized as being both a fashion industry and seasonal. Up to 60% of our retail sales fall in the fourth quarter of the year. This requires long lead times for production buildups and heavy inventories to support consumer demand. Combine these features with an often short product life, the fickleness of consumer tastes and the importance of combining domestic and overseas production for customer service and you can see how delicate the process becomes to try to insure success. Too, our products are sold in advance at a fixed price. Thus uncertainty of supply and price which come from quotas or allocations would be extremely detrimental to the health of the business.

I would like to emphasize again that we understand that there is widespead agreement for the exclusion of toy products from this bill. The major textile trade associations have agreed that it was not the intent of that industry to request consideration of toys, dolls and dolls' clothing for restrictions. To my knowledge, no one in the toy industry was ever contacted about our views before the bills were introduced.

Consideration should be given to the unique pricing in the toy industry. As a result of the huge volume developed by our marketing techniques - we estimate that we shipped over two billion toy units in 1984 - the American consumer is able to enjoy the lowest price in the world for an identical product. Loss leaders of popular, well recognized name toys are seen regularly in newspaper advertisements all over the country. Retail margins are substantially below most other consumer goods. Wholesale prices have consistently lagged behind the Consumer Price Index. This is because volume, plus overseas sourcing, plus supplemental domestic production plus efficient distribution has allowed us to stay below other world inflationary pressures. Import restrictions can only lead to reduced supply, interference with the system and, in all probability, higher prices.

I have brought samples of some of my products to illustrate these points.

I hope that this committee will exclude toys from this legislation.

Thank you for your time and consideration.

STATEMENT BY GAIL McMANUS, ADMINISTRATOR, IMPORT DIVISION, PAUL REED, INC., NEW YORK, NY, ACCOMPANIED BY JACK G. WASSERMAN, ESQ., COUNSEL, FREEMAN, WASSERMAN & SCHNEIDER, NEW YORK, NY

Ms. McMANUS. Good morning, Senator Chafee.

My name is Gail McManus. I am the import administrator of Paul Reed of New York City. Our company is one of America's largest domestic manufacturers of women's pants. Every week we produce over 100,000 pairs of women's pants. And yet, we oppose S. 680 as presently written.

Our ability to import coordinating blouses and sweaters not available in the United States has increased our domestic production.

Paul Reed began almost 30 years ago as a domestic manufacturer of moderate priced women's pants. "Moderate priced" means at the lower range of the price scale. In 1983 we responded to our customers' requests that we add moderate priced blouses and sweaters to coordinate with our pants. The styling details required by our customers, pushed U.S. production out of our price range, we therefore, went offshore for these particular fashion-image blouses and sweaters. Our company has benefited without any adverse impact on other domestic producers of blouses and sweaters.

I emphasize—our company has been able to increase its domestic production. We have been able to hire and create new jobs for new employees, and for the first time we have been providing the American consumer with related sportswear at a moderate price.

On the other hand, passage of the proposed legislation will prevent us from acquiring apparel items not available in the United

States. It will delay further expansion of our domestic production, and it will prevent us from providing the American woman with fashion sportswear at a moderate price.

Thank you, Mr. Chairman.

Senator **Chafee**. Thank you, Ms. McManus.

Let me ask you this right now: I believe you were here during the prior panel.

Ms. **McManus**. Yes, I was.

Senator **Chafee**. And heard those witnesses. And you yourself, your company, went out to seek a new line from domestic manufacturers. You said, "We discovered the cost of producing these important items pushed the price higher".than you could be competitive. What was your experience with the American manufacturers? You heard the laments of those in the prior panel about the inability of American manufacturers to produce on time the correct runs, the styling, and so forth; what was your experience? Was it solely price?

Ms. **McManus**. Our experience has been involving labor. We require many styling details—extra pockets, extra pleats, stitching details, which are labor costs, pushing the price of our product beyond the price that our consumer can afford to pay.

Senator **Chafee**. So, what forced you overseas was price, not failures of the manufacturers in the other areas?

Ms. **McManus**. The main consideration was price. The second consideration was that we found American manufacturers reluctant to add the extra stitching, the extra seams, the extra pockets, and the details that we require for this fashion-image product.

Senator **Chafee**. What do you mean "reluctant to add it?" Because it was contrary to their usual procedures?

Ms. **McManus**. Yes.

Senator **Chafee**. If they were going to be paid for it?

Ms. **McManus**. Yes, sir.

Senator **Chafee**. They just didn't like changing their ways?

Ms. **McManus**. Yes, sir.

Senator **Chafee**. All right, thank you, Ms. McManus.

The next witness is Mr. Wagner.

[Ms. McManus' written testimony follows:]

SUBCOMMITTEE ON
  INTERNATIONAL TRADE

September 23, 1985

S.680
Textile and Apparel
  Trade Enforcement
  Act of 1985

SUMMARY OF PRINCIPAL POINTS OF ORAL TESTIMONY BY GAIL McMANUS

1. PAUL REED, INC. is one of America's largest domestic manufacturers of moderate-priced traditional women's pants and has annual sales of approximately $100 million.

2. PAUL REED, INC. began importing certain types of blouses and sweaters in 1983 because competitive apparel items were unavailable from domestic sources.

3. Paul Reed's new import program (a) increased domestic production in 1985 by more than 12 percent over 1984 with an increase in American production jobs, (b) created over 100 new jobs and dozens of allied service jobs at our new warehouse and (c) provided the American consumer with moderate-priced clothes not available from domestic sources.

4. Each of these beneficial results was achieved without any adverse impact on other domestic producers.

5. The proposed legislation will delay future expansion of our domestic production by restricting our acquisition of complimentary items not available in the U.S.

UNITED STATES SENATE

COMMITTEE ON FINANCE

SUBCOMMITTEE ON INTERNATIONAL TRADE

* * * * *

In Connection With S.680

THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

* * * * *

Oral Testimony Of

GAIL McMANUS

On Behalf Of

PAUL REED, INC.

462 Seventh Avenue

New York, New York 10018

(212) 736-1300

September 23, 1985

My name is Gail McManus. I am the Administrator of the newly created Import Division of Paul Reed, Inc. of New York. I am accompanied by Jack G. Wasserman of Freeman, Wasserman & Schneider, trade counsel to our Company.

Our Company is one of America's largest domestic manufacturers of women's pants; every week we produce over 100,000 pairs of pants in New York City. And yet we oppose any additional import restrictions, particularly quotas which will seriously restrict the growth of our domestic production.

Some background is necessary to understand our position.

Paul Reed was established almost 30 years ago. In 1985 our sales will approach $100 million. Our growth and reputation have been principally built on the manufacture and sale of "moderate-priced" traditional women's pants. In our industry the term "moderate price" means a price which falls within the lower-end of the price range.

In 1983 we decided to respond to our customers' requests that we add moderate-priced blouses and sweaters to coordinate with our pants. We wanted to satisfy our customers' growing demand for "fashion-image" clothes by women in America's workforce who could not afford "better" or "designer"-priced clothes.

For this reason, we researched numerous American resources to explore the possibility of acquiring sweaters and blouses with a fashion-image which could be sold in the same price range as our pants.

Specifically, our marketing personnel sought to acquire hand-knitted and "full-fashion" sweaters -- not "cut-and-sewn" sweaters. (There is a big difference between these types, and I will supply illustrations to the Committee's staff.) After an exhaustive review of existing American resources we discovered it was not possible to buy either hand-knitted or full-fashion sweaters in the United States because the cost of hand-knitting pushed the cost of production beyond our price range and there is an absence in the United States of the special equipment needed to produce a "full-fashion" sweater.

Our attempts to acquire U.S.-produced blouses are a similar story. Again, it was important to our customers that we offer contemporary, fashionable blouses with the styling details desired by American women. Once again, however, we discovered that the costs of producing these important styling details pushed the price of domestically-produced blouses well above the prices which would be compatible with the prices at which we sell our domestically-produced pants. The blouses which we could acquire in the United States could not be sold with the pants which we produce in the United States.

Therefore, we went "off-shore" for these types of sweaters and blouses. As a result our 1985 domestic production of pants has increased more than 12 percent over our 1984 production creating additional American jobs in our domestic factories. Second, our Company was able to create over 100 new jobs in the New York metropolitan area (and this does not include either the construction jobs created when we built a new warehouse in New Jersey or the dozens of allied jobs which will be required to service our new facility). And third, we are providing the American woman with fashionable, career-oriented sportswear at a moderate price.

Based on our experience, we believe we can predict the impact which the passage of the proposed legislation will have on our Company -- and on other domestic manufacturers who also import to round out their lines and compliment their domestic production.

First, the proposed quota system will prevent us from acquiring apparel items which are not available in the United States. It is one thing to consider restricting imports which are competitive with domestic articles, but the proposed Bill will prevent us from selling sweaters and blouses to the American consumer at prices which they can afford.

Second, the Bill will delay future expansion of our domestic production. Again, I emphasize that our ability to import these sweaters and blouses permitted us to grow, hire more employees, and satisfy the American consumer without any adverse impact on other domestic producers of blouses and sweaters.

Third, on a broader level, additional import restrictions will principally reduce the importation of low and moderate priced apparel since foreign producers will shift to higher-priced, higher-value exports. Thus, the hardest hit American consumer will be the customer who wants lower-priced merchandise.

We very greatly appreciate this opportunity to appear before you and I will attempt to answer any questions which you might have.

STATEMENT BY RICHARD WAGNER, VICE PRESIDENT AND GENERAL MANAGER, KNOLL TEXTILES, NEW YORK, NY, AND PRESIDENT, ASSOCIATION FOR CONTRACT TEXTILES, ACCOMPANIED BY MARTIN J. LEWIN, ESQ., MUDGE ROSE GUTHRIE ALEXANDER AND FERDON, WASHINGTON, DC

Mr. **Wagner**. Good morning, Mr. Chairman.

My name is Richard Wagner. I am vice president and general manager of Knoll Textiles of New York City, a wholesaler of domestic and imported decorative fabrics for interior furnishings. Interior furnishings fabrics are used in the manufacture of draperies, upholstery, and wallcoverings for both commercial and residential markets.

I appear today as president of the Association for Contract Textiles and as a member of the Decorative Fabrics Association in opposition to S. 680.

Our association is a part of a broader industry of over 450 companies wholesaling interior furnishings fabrics. The interior furnishings fabric industry is separate and distinct from the apparel fabric industry, as textile manufacturers cannot readily shift production between apparel and nonapparel fabric.

Products in the interior furnishings market are of uniform high quality and compete on the basis of style and availability, not price. Domestic mills producing interior furnishings fabrics are highly valued, quality resources, with significant competitive advantages over foreign resources.

Domestic mills predominate in our market. Domestic purchases allow wholesalers greater control in the production of merchandise, provide greater opportunities for quality inspection, and quicker deliveries. These advantages are particularly important for custom fabrics.

The tremendous growth of our industry in recent years has helped many domestic mills, particularly smaller New England mills which would otherwise have been in serious trouble.

Senator **Chafee**. You are coming close to home now, Mr. Wagner.

Mr. **Wagner**. I certainly am.

Senator **Chafee**. Keep going.

Mr. **Wagner**. At present, at least 80 domestic mills produce interior furnishings fabrics. Although most interior furnishings fabrics sold in the United States are American made, imports are extremely important to the viability of our industry.

Our industry has become a fashion industry, requiring strong product differentiation, and has grown because each company provides a unique product line in competition with other wholesalers. Imports provide the variety necessary for each company's survival. Without imports, the industry would lack diversity, demand for interior furnishings fabric would contract, and sales would decline. Smaller domestic mills would suffer as the smaller wholesalers, no longer able to compete, would disappear.

In essence, in this industry imports and domestic production complement each other, and each would fare worse without the other.

S. 680 would be extremely harmful to our industry. It would impose quotas for the first time on silk and linen fabrics. It would significantly cut back trade from sources such as Japan, China, India, and Thailand—in some products by up to 95 percent. It would impose quotas for the first time on suppliers and potential suppliers such as New Zealand, Australia, Switzerland, Portugal, Spain, Denmark, Norway, Sweden, Finland, and Ireland.

S. 680 would also impose import licensing schemes which our companies are ill-equipped to handle and which would place our companies at a competitive disadvantage against large apparel fabric importers.

An amendment to S. 680 not to exempt the EC and Canada would be devastating, as it would force major cutbacks on Germany, the United Kingdom, and Italy, among the most important of our foreign sources.

We believe S. 680 would be extremely harmful to our industry. S. 680 is fatally flawed, and it does not distinguish between imports which may be harmful to the American manufacturers and imports which are not; or, as within our industry, imports which actually help American manufacturers and industry.

The current system, under the MFA, provides the flexibility needed in the real world to avoid needless dislocations and at the same time protect injured industries.

We urge that S. 680 be defeated.

Thank you.

Senator CHAFEE. Thank you very much, Mr. Wagner.

Mr. Lehman.

[Mr. Wagner's written testimony follows:]

STATEMENT
of
Richard Wagner
Vice President and General Manager,
Knoll Textiles

Before the
Subcommittee on International Trade
Senate Finance Committee
United States Senate

On Behalf of the
Association for Contract Textiles and
the Decorative Fabrics Association

in Opposition to

Textile and Apparel Trade Enforcement Act of 1985
(S. 680)

September 23, 1985

Mr. Chairman, Members of the Subcommitte:

My name is Richard Wagner. I am Vice President and General Manager of Knoll Textiles, of New York City, a division of Knoll International. Knoll Textiles is a wholesaler of domestic and imported decorative fabrics for interior furnishings. I appear today as President of the Association for Contract Textiles and a member of the Decorative Fabrics Association in opposition to the Textile and Apparel Trade Enforcement Act of 1985, S. 680.

The Association for Contract Textiles (ACT) is an organization of 23 companies, who, like Knoll Textiles, wholesale fabrics for the commercial decorative interior furnishings market. These fabrics are used in the manufacture of draperies, upholstery, wall coverings, and partition coverings for businesses; upholstery for aircraft; and in health care and hospitality facilities. The Decorative Fabrics Association (DFA) is an organization of 43 members involved in the wholesale of decorative interior furnishings fabrics primarily for residential use. Both associations are part of a broader industry of over 450 companies wholesaling interior furnishings fabrics.

The U.S. Non-Apparel Fabric Industry

The interior furnishings fabric industry is separate and distinct from the apparel fabric industry. Interior furnishing fabrics and other fabrics manufactured for industrial and residential markets are produced in different mills from apparel fabrics, using different machinery, and involving different skills. Textile manufacturers cannot readily shift production from apparel fabrics to non-apparel fabric, or from non-apparel fabrics to apparel fabrics.

The non-apparel mill sector is a significant and growing segment of the American textile industry, often overlooked in the hysteria over imports. Sixty percent of domestic mill consumption of fibers is used in the production of non-apparel textile products. Non-apparel textile fiber consumption in 1983 and 1984 was at its second and third highest levels in the past ten years, and when consumption of non-apparel fiber in exported textile products is excluded, consumption for domestic production in 1984 was at an all time high, 26 percent above 1982 recession levels (see Table 1).

Imports are not a significant competitive factor in the U.S. non-apparel fabric market. Imports accounted for only about 4 percent of this market in 1984.

The Importance of Domestic Production in the Interior Furnishing Fabric Industry

Unlike the apparel fabric market where price is often a determinative factor, in the non-apparel fabric market, both domestic production and imports are high quality, high value merchandise. For commercial furnishings, wool and silk fabrics are most commonly used. In the house furnishings market, expensive cotton fabrics are also used extensively. These products compete on the basis of style and not price. Availability of distinct fabrics is also a key consideration.

Domestic mills producing fabrics for our market are highly valued, quality resources, with a very competitive product, and have significant competitive advantages over foreign sources. Interior furnishing fabric wholesalers prefer domestic fabrics and buy them where available. At present, at least 80 domestic mills produce interior furnishings fabrics.

Domestic purchases allow wholesalers greater control in the production of merchandise, provide greater opportunities for quality inspection, and quicker deliveries. These advantages are particularly important for custom products. Domestic mills are often vertically integrated, particularly in the production of woolen and worsted fabrics, being involved in every stage of the production process from the fiber to the finished product. This simplifies the wholesaler's sourcing. Our companies have estabished close working relationships with these mills, which are able to provide the special production we need in small runs.

My own company's experience illustrates the importance of domestic fabrics for our industry. Eight years ago, when I first joined Knoll Textiles, 65 to 70 percent of the company's sales were imports, because the company grew out of Knoll International's overseas operations. Knoll's sales have grown 6 1/2 times since then because we recognized the advantages of domestic production and shifted our product mix heavily towards domestic fabrics. Imports now account for only a quarter of our sales.

Knoll's growth in recent years is part of a broader pattern of growth of the interior furnishings fabric industry generally. Domestic mills have benefited tremendously from our industry's growth. Many of the domestic mills producing these fabrics are smaller New England mills previously manufacturing woolen and worsted apparel fabrics. Prior to their changeover to interior furnishings fabrics to service our industry, these mills were in trouble due to a combination of competition from southern mills and imports. These previously troubled companies expanded their operations as a direct result of the increased demand for interior furnishing fabrics, and are currently operating at or near capacity. The expansion of the interior furnishings fabric sector parallels the expansion of the non-apparel fabric sectors generally. As a result, domestic textiles manufacturers are shifting production from apparel fabric manufacturing to this sector to take advantage of their comparative advantage in this growing market.

The Importance of Imports to Interior Furnishings Fabric Wholesalers

Although most interior furnishings fabrics sold in the United States are produced domestically, imports are extremely important to the viability of our industry. A major reason for the growth of this industry in recent years is the increased emphasis on fashion in business and home furnishings and the increased demand for interior furnishings fabric for business and home decorating. Our industry requires strong product differentiation and has grown because each company provides a unique product line in competition with other wholesalers. Imports provide the diversity of product necessary for each company's survival. Each country's wool has different characteristics and create distinct fabrics. Traditional skills and designs for silk and cotton fabric production also differ by country and are difficult to reproduce. Without imports, the industry would lack variety in their product lines, demand for interior furnishing fabric would contract, and sales would decline. Smaller wholesalers in particular would not be able to compete against larger companies if more basic products predominate. Smaller domestic mills would suffer as the smaller wholesalers disappear. The result would be a smaller interior furnishings mill industry dominated by bigger companies. In essence, in this industry, imports and domestic production complement each other, and each would fare worse without the other.

The Harmful Impact of S. 680

S. 680 would be extremely harmful to the interior fabrics industry. Imports of silk fabric, an important product in our industry, would become subject to quotas for the first time, as would linen fabric used in residential interior furnishings and commercial wall coverings. Imports from Japan and developing country suppliers of interior furnishings fabrics, and of yarns used for domestic production of these fabrics, would be cut back substantially. For example, imports of wool fabrics from Japan would be cut back 24 percent, while imports of wool yarns would be cut back 95 percent.

Important developing country suppliers of cotton and silk fabrics for the residential market -- India, China and Thailand -- would, like Japan, also be subject to substantial reductions to quota.

Under S. 680, imports of wool fabrics from New Zealand and Australia, sources of growing importance which are not exempt under S. 680 (the bill exempts only Canada and countries currently members of the European Economic Community), would become subject to quotas for the first time, as would imports from Switzerland, another non-exempt developed country. Imports from other potentially important, non-exempt developed countries, including Portugal, Spain, Denmark, Norway, Sweden, Finland, and Ireland, would also fall under quota, precluding their development as useful suppliers of diversified products.

In addition to cutbacks and new restrictions in trade, S. 680 would also require that the Secretary of Commerce develop an import licensing scheme covering all textile and apparel imports from all countries. Such a scheme could cause serious hardship to interior furnishings fabric wholesalers which are ill-equipped to undertake the necessary paperwork, recordkeeping and administration which would be required. An import licensing scheme would also disproportionately harm the numerous small businesses which comprise a major portion of this industry, as these companies will not be able to compete with large fabric importers in obtaining quotas.

Finally, an amendment of S. 680 to include Canada and EC countries under the bill's quota provisions would be devastating to our companies. West Germany, Italy, and the United Kingdom are major sources of imported fabrics for our industry. Were these countries not exempt, they would be defined as "major exporting countries" and would subject to major cut backs in trade in fabrics and yarns. For example, wool tapestry and upholstery from the United Kingdom would be cut back 62 percent from its 1984 level; woolen and worsted fabrics from West Germany would be cut back 86 percent and wool tapestry and upholstery 55 percent; woolen and worsted fabrics and wool tapestry and upholstery from Italy would all be cut back 83 percent. Domestic mills producing interior furnishings fabrics would also be harmed by quotas on imports of wool yarns from these countries. Imports from United Kingdom would be cut back 65 percent from their 1984 level, imports from Italy would be cut back 91 percent, and imports from Germany would be cut back 81 percent.

CONCLUSION

In sum, interior furnishings fabric wholesalers view S. 680 as fatally flawed. The bill would drastically reduce imports of fabrics and yarns from key suppliers and impose quotas on these and other important suppliers and protential suppliers. These trade restrictions would apply to products not previously restricted, as well as to products already subject to restrictions. Trade would be cut back and quotas imposed on these yarns and fabrics automatically, despite the fact that these products do not compete with domestic production, despite the fact that domestic mills producing similar fabrics are healthy and growing, and despite the harm which would result both to domestic fabric wholesalers and domestic mills producing these products.

Legislation, no matter how carefully crafted, will inevitably produce these consequences, as it cannot take into account the particular circumstances surrounding trade in specific textile products, or predict future market and trade conditions in the industry.

Necessary flexibility in regulation of textile imports can only occur when actual market conditions are taken into account. The current system of regulation under the MFA is designed to provide this flexibility by enabling the U.S. Government to restrict trade of specific products from specific sources which disrupt the U.S. market. We urge that this flexibility be preserved by rejection S. 680, to avoid needless injury to our industry and to other similarly situated industries.

TABLE 1

NON-APPAREL TEXTILE FIBERS SUPPLY AND DEMAND, 1974-84
(Quantities in millions of pounds, raw fiber basis)

Year	Domestic Mill Consumption of Non-Apparel Fibers	Domestic Mill Consumption of Non-Apparel Fibers, excluding exports
1974	6,210	5,702
1975	5,745	5,321
1976	6,524	6,037
1977	6,669	6,228
1978	6,964	6,493
1979	7,125	6,504
1980	6,555	5,902
1981	6,532	6,083
1982	5,667	5,337
1983	7,028	6,659
1984	7,109	6,730

STATEMENT BY LEONARD LEHMAN, ESQ., COUNSEL, BARNES, RICHARDSON & COLBURN, WASHINGTON, DC, ON BEHALF OF THE AMERICAN INTERNATIONAL KNITTERS CORP., AND COMMONWEALTH GARMENT MANUFACTURING, INC., SAIPAN, COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS, ACCOMPANIED BY MATTHEW T. McGRATH, ESQ., BARNES RICHARDSON & COLBURN, WASHINGTON, DC

Mr. LEHMAN. Mr. Chairman, I am Leonard Lehman of Barnes, Richardson & Colburn, and I am appearing on behalf of American International Knitters, Inc., and Commonwealth Garment Manufacturing, Inc. These companies are small producers of apparel located on the Island of Saipan in the Commonwealth of the Northern Mariana Islands, or CNMI, an important insular territory of the United States.

Essentially, these two manufacturers constitute the present textile and apparel industry of the Northern Marianas. The passage of S. 680 in its present scope would repudiate the United States policy of encouraging the economic development of the CNMI, the Trust Territories of the Pacific, and the other insular territories with the status of possessions of the United States. It would effectively eliminate the benefits specifically granted to the CNMI by Congress under general headnote 3(a) of the Tariff Schedules of the United States. It would deal a particularly serious blow to the small apparel industry of the Northern Marianas.

With the limited resources and opportunities in the CNMI for industrial development and employment for its citizens, Congress should not recede from the United States special commitments to insular possessions by treating them as foreign countries and placing severe restrictions on their ability to produce new jobs and attract capital investment.

We support and adopt the sentiments already expressed before this committee in this regard by Resident Representative Tenorio of the CNMI, Delegate Blaz of Guam, Governor Bordallo of Guam, Lieutenant Governor Waihee of Hawaii, and Attorney General Kosack of the CNMI.

Imports from the Northern Marianas account for a miniscule portion of apparel consumption in the United States and pose no threat to mainland producers. Production on Saipan is limited primarily to cotton and acrylic sweaters. These are necessarily produced from components manufactured elsewhere at this time, since the CNMI does not yet have the indigenous capability to draw and weave constituent yarns and fabrics in the territory. Total imports of sweaters into the United States accounted for about three-tenths of 1 percent of total U.S. imports in the relevant categories between November 1984 and July 1985; however, even this minor volume of trade, and the local economic activity that it represents, has been subjected to strict limitations under the recently promulgated change in Customs regulations regarding rules of origin for textile quota purposes.

The special relationship of the United States with and its unique obligations to the CNMI is a status of long standing, established under the UN Trustee Agreement, perfected in the Covenant of the Commonwealth of the Northern Mariana Islands, and embodied with respect to trade in headnote 3(a) to the Tariff Schedules of the United States. This provision encourages the economic development of the CNMI through duty-free treatment for apparel imports as long as they do not contain foreign materials in excess of 50 percent of their total value. This requires a substantial local-value input through productive activity in the Northern Marianas in order for the goods to qualify for duty-free treatment.

Any fears of the U.S. mainland apparel producers that these companies could be used as conduits or transshipment points by Asian suppliers to increase their exports to the United States in circumvention of quota restrictions are just unfounded. Officials of the United States Customs are located in the Marianas and can readily detect any intentional fraud or avoidance of United States duty and country of origin laws. Thus, enforcement is already more rigorous than with respect to goods imported from foreign countries. In addition, there is not enough water and electricity available to support large-scale industrial development that would constitute a threat to U.S. industry.

Mr. Chairman, the American International Knitters and Commonwealth Garment Manufacturing companies request that S. 680, section 4(4), be amended to exclude the term "insular possessions of the United States" from the definition of "country," so that our possessions are not treated as if they were foreign countries for the purposes of this bill.

Senator **Chafee**. Well, thank you very much, Mr. Lehman. I am sympathetic. Forty years ago I was a marine on Saipan, so I know the territory fairly well.

Say, what is the population of Saipan?

Mr. **Lehman**. About 15,000 is the total population.

Senator **Chafee**. Does that include Tinian, or just in Saipan alone?

Mr. **Lehman**. Mostly in Saipan, I believe.

Senator **Chafee**. All right. Mr. Trust.

[Mr. Lehman's written testimony follows:]

Before the

UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE

STATEMENT OF

LEONARD LEHMAN
BARNES, RICHARDSON & COLBURN
WASHINGTON, D.C.

ON BEHALF OF

AMERICAN INTERNATIONAL KNITTERS CORP.

AND

COMMONWEALTH GARMENT MANUFACTURING

September 23, 1985

SUMMARY

1) American International Knitters and Commonwealth Garment Manufacturing are producers of apparel in the Commonwealth of the Northern Marianas. Products from the CNMI are intended by Congress to receive duty-free treatment under General Headnote 3(a) of the Tariff Schedules of the United States, in order to assist the economic development and encourage employment in the islands.

2) S.680 would place severe restraints on any local development in the CNMI since, by treating the Marianas and U.S. insular possessions as foreign "countries", it would place unrealistic and unfair quota limits on apparel made in the CNMI.

3) The inclusion of insular possessions in the coverage of the bill would repudiate the Congressional intent embodied in Headnote 3(a) and would be contrary to the obligations of the United States to the Trust Territories of the Pacific.

4) The volume of imports of apparel from the CNMI is so insignificant as not to threaten market disruption.

5) There are sufficient safeguards against the use of the CNMI to transship goods in violation of U.S. Customs laws, through on-site presence of U.S. Customs officials. Furthermore, products of the CNMI do not threaten the U.S. industry since local businesses must comply with U.S. wages and labor standards, and physical limitations prevent the expansion of CNMI industries to a substantial size.

6) Section 4(4) of S.680 should be amended to exclude "insular possessions of the United States" from the definition of "country".

Mr. Chairman and members of the Committee, I am Leonard Lehman of Barnes, Richardson & Colburn, appearing on behalf of American International Knitters, Inc., and Commonwealth Garment Manufacturing Corporation. These companies are small producers of apparel located on the island of Saipan in the Commonwealth of the Northern Mariana Islands ("CNMI"), an important insular territory of the United States. In fact, these two manufacturers constitute the textile and apparel industry of the Northern Marianas.

The passage of S.680, the so-called Textile and Apparel Trade Enforcement Act of 1985, in its present scope would repudiate the U.S. policy of encouraging the economic development of the CNMI, the Trust Territories of the Pacific, and the other insular territories with the status of possessions of the United States. It would effectively eliminate the benefits specifically granted the CNMI by Congress under General Headnote 3(a) of the Tariff Schedules of the United States. This bill would deal a particularly serious blow to the small and important apparel industry of the Northern Marianas. With the limited resources and opportunities in the CNMI for industrial development and employment for its citizens, Congress should not recede from the United States' special commitment to insular possessions by treating them as "foreign countries" and placing severe restrictions on their ability to produce new jobs and attract capital investment.

We support and adopt the sentiments already expressed before this Committee by Resident Representative Tenorio of the CNMI, Delegate Blaz of Guam, Governor Bordallo of Guam, Lieutenant Governor

Waihee of Hawaii, and Attorney General Kosack of the CNMI. S.680, as proposed, treats the CNMI and other strategically important insular possessions in a manner less favorable than Canada and the member states of the European Community, even though the clear intent and long-standing purpose of Headnote 3(a) has been to treat articles from these possessions in a manner more favorable than even the GSP, Caribboan Basin, and Israel Free Trade Programs. We ask that this Committee not yield to runaway protectionist sentiment, and to exclude all U.S. territories treated as "insular possessions" from the coverage of the bill.

The Volume of Imports from the CNMI is Insignificant

Aside from the fact that under the policy and purposes of Headnote 3(a), imports from the Northern Marianas should not be examined in the same manner as those from foreign countries, it should be noted that imports from these possessions account for a miniscule portion of consumption in the United States, and pose no threat to mainland producers. Production on Saipan is limited primarily to cotton and acrylic sweaters. These are necessarily produced from components manufactured elsewhere, since the CNMI does not yet have the indigenous capability to draw and weave constituent yarns and fabrics in the territory. Total imports of sweaters into the United States from CNMI reached 35,000 dozen in the period November 1984 through July 1985, or only about .3% of total U.S. imports in the relevant categories. However, even this minor volume of trade and the local economic activity it represents has been subjected to strict limitations under the recently promulgated change in Customs regulations regarding rules of origin for textile quota purposes. Directives by the Chairman of the Committee on Implementation of Textile Agreements have established annual quotas for the importation of sweaters, determined by Customs rules to originate in foreign countries, of 70,000 dozen from the CNMI and 160,000 dozen from Guam. Under the new Customs regulations, sweaters in excess of the latter quantities will be subject to the quotas of the countries in which the fabrics are manufactured. This change of administrative practice and policy has already diluted the intended benefit of Headnote 3(a) and eliminated any possibility that apparel imports could adversely affect garment production on the mainland of the United States. The direct inclusion of territories treated as insular possessions in the definition of countries treated as "foreign countrias" under this bill would provide Congressional blessing to such regressive limitations on economic development within these possessions, as if they were in fact "foreign countries".

The CNMI has a Special Status

The special relationship of the United States with - and its unique obiligation to - the CNMI is a status of long standing, established under the U.N. Trusteeship Agreement, perfected in the Covenant of the Commonwealth of the Northern Mariana Islands, and embodied, with respect to trade, in Headnote 3(a) to the Tariff Schedules of the United States. This provision encourages the economic development of the CNMI through duty free treatment for apparel imports, as long as they do not contain foreign materials in excess of 50% of their total value. This requires a substantial local value input through productive activity in the Northern Marianas in order for the goods to qualify for duty-free treatment, and the intended benefits of the special duty treatment have begun to be realized. Having established their operations in the last two years, our clients are expanding with the goal of manufacturing garments entirely in the Marianas, with a decreasing reliance upon foreign components. They have made investments in the CNMI upon the invitation and encouragement of the Commonwealth and, they have chosen the Marianas over alternative sites in Southeast Asia. Most importantly, these companies are training natives of the Mariana Islands so as to establish a truly indigenous industrial base and new local labor skills.

Congress intended this special provision of the Tariff Schedules to work just as it has in the case of the CNMI. However, its benefits, and the hopes they offer for stable employment opportunities, are being reduced. As we have indicated, the Committee on Implementation of Textile Agreements has limited exports to the United States under revised country of origin rules. Now, the Congress has proposed to treat these possessions as foreign countries.

Even for apparel made entirely in the CNMI, S.860 would severely restrict imports by basing quota limits on 1984 trade levels, when apparel shipments from the Marianas had just commenced. This cut-off of newly established activity is not only illogical and unfair; it would render nugatory the U.S. obligations to the U.N. Trust Territory.

There can be no doubt that the purpose of 3(a) is being served in the CNMI; it would be unfortunate if this program were undermined for so small a volume of trade, through the ironic classification of the CNMI as a "foreign country".

Current Safeguards Will Prevent Any Market Disruption

Any fears of the U.S. mainland apparel producers that these companies could be used as "conduits" or transshipment points by Asian suppliers, to increase their exports to the United States in circumvention of quota restrictions, are simply unfounded. Officials of the U.S. Customs Service are located in the Marianas, and can readily detect any intentional fraud or avoidance of U.S. duty and country of origin laws. Thus, enforcement is already more rigorous with respect to these territories than for goods imported from foreign countries. The CNMI strictly controls immigration, so there can be no large influx of foreign nationals to control the jobs created by these manufacturers. By virtue of CNMI's status as an insular possession, employers are required to comply with U.S. labor laws concerning wages and working conditions. In fact, employment opportunities for the inhabitants of the Marianas avoids the necessity for the U.S. government to provide unemployment compensation. Finally, the most effective safeguard for the mainland industry is the simple physical constraint on substantial expansion in the Marianas. There is not enough water and electricity available to support large-scale industrial development. The rather limited opportunities for local development rest on the type of light industry which has found a foothold in the garment factories with the assistance of Headnote 3(a).

Conclusion

The CNMI has begun to develop economic independence by using the benefits provided by Congress under Headnote 3(a). S.680 would depart from the historical relationships between the U.S. and the CNMI, and arrest its development. In addition, the physical limitations and administrative enforcement measures already in effect will prevent any threat of displacement of mainland U.S. apparel manufacturers.

Therefore, American International Knitters and Commonwealth Garment Manufacturing request that S.680, Section 4(4) be amended to exclude the term "insular possessions of the United States" from the definition of "country".

STATEMENT BY MARTIN TRUST, PRESIDENT, MAST INDUSTRIES, INC., WOBURN, MASSACHUSETTS, ACCOMPANIED BY SHELDON WOOL, EXECUTIVE VICE PRESIDENT, MAST INDUSTRIES, INC., AND AL DIETZEL, VICE PRESIDENT, THE LIMITED, INC., COLUMBUS, OH

Mr. TRUST. Thank you, Mr. Chairman and members of the committee.

My name is Martin Trust. I am the founder and president of a company called Mast Industries. In 1978 we merged with The Limited, Inc. I am submitting my statement on behalf of The Limited, Inc., as a director.

We are the largest women's apparel specialty retailer in the United States. We have about 2,500 stores, operating under the names of The Limited, Limited Express, Victoria's Secret, Lane Bryant, and others. We employ about 17,000 people, and we do about $2.5 billion a year in volume. We sell about 100 million garments a year. We are opposed to this legislation for a lot of reasons.

To the extent that this legislation is being promulgated for the purpose of protecting American jobs and for trying to get a fairer deal with our international trading partners, we think it fails on both scores.

With regard to fair trade treatment, this bill really doesn't penalize those who violate fair trade practices. What it does is it penalizes a lot of people, some of whom are our best trading partners and others of whom are really underdeveloped countries that need help.

With regard to the creation of American jobs, we find that this bill doesn't really solve the fundamental problems that make

American apparel and textile products somewhat noncompetitive in the world market.

We think that this bill also gives a false sense of security to a lot of American apparel companies, which desperately need to improve their marketing efforts and their technology if they are going to create more sales and create more jobs.

It also shelters the inefficient as well as the efficient American manufacturers, putting the apparel and textile industry on a somewhat permanent life-support system, discouraging or at least deferring necessary capital investment and productivity improvements that we think are essential if our industry is to come out of its doldrums.

It is useful for us to note that, to the extent that this bill reduces the amount of apparel imports allowed into the country, it will be the lower priced products that suffer, and those are the products needed most by the lower income families.

We do think Congress and the administration can help American textile and apparel industries without violating international agreements or undermining relations with friendly countries.

A couple of suggestions might be things like modifying the 806 and 807 programs so that we can export more fabric produced in the United States. As you know, right now, unless we cut the fabric in the United States, we can't ship it offshore and then bring it back paying duty on the value-added only. It is kind of hard for me to figure out why we do that. Why don't we allow good producers of textiles, of which there are several in this country, to ship their goods wihout making it mandatory to cut it here?

We can obviously make money available for job retraining where industries are obsolete, or where technological advances require retraining. We can provide through tax and other incentives encouragement for capital investment in the textile and apparel production equipment that makes us competitive.

We think that instead of penalizing a broad assortment of countries, it would be a whole lot fairer if we determined which countries are in fact violating fair trade practices, and then aim our penalties at them.

As a final comment I would like to relate to you the way I see the import market as a businessman whose job it is to provide large quantities of fashion apparel for women.

Let me first say that we get about 25 percent of our product from the United States. A couple of weeks ago, one of our divisions asked us to find 4 million sweaters for them by the end of December. There was just no way in the world that I could find those in the United States.

Another division asked us to find 200,000 sweaters for them by the end of November. So far I have only been able to locate 25,000 in the United States.

I think, also, it is a common myth that we buy products from overseas because they are cheaper. I would tell you, in the last 5 years it has been my experience that speed of delivery is as important—maybe more so—than price. And it is unfortunate to note that I can often get a shipment from a supplier 8,000 miles away quicker than I can get it from a guy who is 10 hours away by truck from our warehouse.

We have capacity problems, in that I just can't get the supply in the quantities we need from a number of domestic suppliers. And you have already heard the question addressed in terms of flexibility. When we want to add buttons or bows or pleats or pockets to a garment, because the fashion dictates that that is what the consumer wants, we are often told by the domestic manufacturers that this is just not what their employees can do.

Finally, gentlemen, I think you ought to be aware of the fact that up-grade in quality, in my experience at least over the last 5 years, is a major reason that imports have grown. They are getting very good at what they do. And to the extent that we in the United States don't recognize this is a world market, and that the consumer is king, and that unless we give the lady what she wants, she is not going to buy American products regardless of the amount of protection that we impose.

Thank you.

Senator CHAFEE. Well, thank you, Mr. Trust.

[Mr. Trust's written testimony follows:]

WRITTEN STATEMENT OF MARTIN TRUST
PRESIDENT OF MAST INDUSTRIES, INC.
ON BEHALF OF
THE LIMITED, INC.

Mr. Chairman and members of the Subcommittee on International Trade, my name is Martin Trust. I am President of Mast Industries, Inc., which in 1978 merged with The Limited, Inc. I submit this statement on behalf of The Limited, the country's largest women's apparel specialty retailer with almost 2,500 stores and several mail order businesses in the United States. We employ approximately 17,000 people and sell about 100 million garments a year. The Limited appreciates this opportunity to present its views in opposition to S. 680, also known as the Textile and Apparel Trade Enforcement Act of 1985.

The Limited would like to begin by making clear to this Committee that as citizens we indeed share the natural concern you and all your Congressional colleagues must feel for the preservation of a strong American economic base and employment for American workers. The question, of course, is whether the proposed bill is likely to achieve those objectives. Upon careful examination of S. 680, we must conclude that the bill not only fails to achieve these objectives, but seriously threatens to impose further harm on an already troubled U.S. retail industry.

The domestic textile and apparel industries have singled out import competition as the perpetrator of their suffering. It is indeed easy to point an accusing finger and to ignore the obvious problems of an all too strong dollar as well as weak, non-imaginative U.S. industry management. It is also quite tempting to want to wave a magic wand and provide a "quick fix" to the domestic industry via a protectionist measure transparently masquerading as a trade enforcement measure. Unfortunately, the realities are that there exist no quick and simple solutions to this problem. In fact, the proposed bill would only add to the staggering amount of protection currently afforded to the textile and apparel industries. An independent study by Washington University in St. Louis reveals that present protectionist measures cost the American consumer $23 billion a year, $19 billion of that amount from tariffs, and $4 billion from import restraints under the Multifiber Arrangement (MFA).

We think it important to dispel the simplistic notion that an American textile and apparel industry collectively is suffering at the hands of U.S. importers. When one considers the individual problems of the textile industry and apparel industry in light of consumer supply and demand, a more balanced perspective comes to light. Hence, in order to achieve a proper analysis of issues, we must clearly distinguish between the textile and apparel industries.

In its role as supplier to The Limited and other retailers, Mast must weigh its choices between purchases made in the United States and those made abroad. In fact, about 25 percent of our product is sourced in the United States, and our domestic production is growing at least as fast as our imports. We have always been dedicated to buying product in the most appropriate market, and we continue to purchase from those segments of the U.S. textile and apparel industries (fabrics, hosiery, jeans, pants and shirts, to name a few) which strive to be both efficient and competitive. We are substantial users of domestic textiles, which are then converted into apparel products in U.S. factories as well as in offshore factories. As American textile producers have become more responsive to our needs, business with them has been growing. The same will be true with regard to the American apparel producers--as they become more responsive and efficient--their business will also improve.

Responsiveness is no trifling matter, since our business views the world in terms of what the American consumer wants--not what we as manufacturers would prefer to make nor what our legislators would prescribe. Consumers are today more discriminating than ever. They recognize and want high-quality, fashionable garments at reasonable prices. At times, fashion will dictate highly constructed garments which would not be appropriate to make in the U.S. The reason for this is that garments of complex construction are labor-intensive, with high U.S. labor costs creating a disadvantage for the domestic apparel industry and low labor costs creating a natural advantage for foreign producers. The U.S. apparel industry, on the other hand, is able to exploit its own natural advantage in connection with less complicated garments: Because of its proximity to the domestic market, it can communicate more quickly with customers, respond to their needs with faster deliveries than is possible from overseas markets, and compete price-effectively.

It follows then that the domestic textile industry should be exceptionally competitive in the world market in that it is capital-intensive, which makes it a natural industry for the U.S. Hence, if the United States wishes to place its resources where it will do the most good, we believe the domestic textile industry would be worth nurturing for long-term viability. We could accomplish this by simply amending Item 807.00 of the Tariff Schedules of the United States. Item 807.00 provides that articles assembled abroad in whole or in part of U.S. fabricated components are dutiable upon reimportation based upon the full value of the article less the cost or value of the U.S. components. To qualify under Item 807.00, textiles have to be cut in the U.S. before they are exported for assembly abroad. If you broaden Item 807.00 by eliminating the U.S. cutting requirement (which, incidentally, is not a labor intensive operation), then very competitive American textile products, such as corduroys, denims, velveteens and polyesters, could be shipped abroad and reimported in apparel form, with duty paid only on the added value. Clearly the domestic industry would be best served by free trade measures such as this, rather than less desirable protectionist legislation which would rankle the international community. This would be a spur to the domestic textile industry, which is presently troubled more by the strong U.S. dollar, rather than by low wage rates overseas.

Proponents of S. 680 have claimed that the comparative advantage of lower overseas labor costs has resulted in larger profit margins for the retailers, who allegedly are not passing cost savings on to American consumers. This simply is not true. It is the previously mentioned tariffs and import restraints under the MFA which sharply reduce such profit margins. One has only to pick up the July 5th Wall Street Journal to learn that retailers suffered a bad second quarter, and that three of the last four quarters have been dismal. So much for the allegation of huge retailers' profits.

In any event, the domestic textile and domestic apparel industries are unable to produce every textile and apparel product demanded by American consumers. Foreign manufacturers fill a need, be it price, quality, or fashion. American consumers want, and deserve, a choice. If the Congress goes ahead and further restricts the market through more drastic quota reductions, then the prices on those affected imported products will rise higher than some consumers are able to pay. This is certainly not in the best interest of the American consumer or other workers who benefit from international trade.

Notwithstanding the troubled U.S. retail industry and current protectionist measures, S. 680 would impose new stringent quotas and cutbacks through a global quota system, creating an arbitrary dichotomy between "major" exporting countries and smaller exporting countries. A major exporting country is defined as a country capturing 1.25 percent or more of U.S. imports in 1984, which amounts to just one-quarter of one percent of the U.S. market. Major exporting countries will only be allowed one percent per year growth on a base significantly reduced from their 1984 levels of trade. Not surprisingly, many so-called "major" exporting countries will see their trade plummet, as well as future growth curtailed. Textile and apparel exports from Brazil, for example, would be reduced by more than 58 percent, while similar exports from Indonesia would be reduced by 72 percent. Such reductions do not occur within a vacuum. When one considers the heavy debt obligations owed to the U.S. by some of the major exporting countries, the curtailment of their textile and apparel exports has an indirect, adverse impact on the U.S. economy.

While the global quota legislation has unpleasant consequences for exporting countries with more developed economies, the legislation threatens further economic hardship for poverty-stricken countries like Bangladesh, Sri Lanka, and India. The textile and apparel industries are a natural industrial opportunity--indeed in most cases the first industrial opportunity--for developing countries. To crush the opportunity to develop their natural base with harsh restrictive legislation will inevitably depress the economic ability and will of those countries to trade with us in agricultural and those industrial products which are our natural base.

The smaller exporting countries, those capturing less than 1.25 percent of U.S. imports, ostensibly are given better treatment than major exporting countries. The legislation would allow them a 15 percent growth rate in 1985 and a 6 percent growth rate thereafter on some products. With the exception of articles from Caribbean countries and Mexico, however, all "import sensitive" articles would be restricted to the same 1 percent yearly growth rate as other exporting countries. Inasmuch as import sensitive categories account for 40 percent of textile and apparel imports, and 60 percent of apparel imports alone, smaller exporting countries will only receive a 1 percent growth rate for many of their exports. Given the small base that they presently have, and the introduction of new quotas on products not previously controlled, the "better treatment" accorded to the smaller exporting countries becomes illusory upon closer inspection.

Another defect in the legislation is its flagrant disregard of international agreements, painstakingly negotiated over many years. Passage of S. 680 would be tantamount to an announcement by the United States to the world community that it is henceforth abrogating the Multifiber Arrangement, other bilateral textile agreements, and the GATT. The Reagan Administration realizes that it cannot unilaterally reduce quota levels at this late date without contravening these agreements. The Administration, through its Cabinet-level Economic Policy Council, has castigated the proposed legislation, citing, among other things, the bill's violation of our international obligations.

This complete disregard of our international commitments will not be without significant repercussions. The proposed bill sadly seems to invite retaliation from abroad. We know through past experience that countries such as China will respond with agricultural embargoes. In the not too distant past, the U.S. expressed its desire to expand its trade relationship with China. Legislation that would unilaterally cut back textile and apparel imports from China by as much as 56 percent would be a major setback to this relationship; and given the bad feelings engendered by the promulgation of the recent Customs country of origin rules, the legislation would be viewed by the Chinese as "adding insult to injury". In addition to agricultural embargoes, an impact will be felt on a broad range of individually competitive industries, including high-tech electronics. Many of the developing countries targeted by this bill represent major opportunities for U.S. export growth-opportunities that could be lost through foreign retaliatory measures.

Foreign retaliation means more than lost U.S. export opportunities: It also translates into a loss of American jobs. Many U.S. jobs depend upon international commerce, such as those associated with shipping, warehousing, retailing, wholesaling, manufacturing, banking and telecommunications. In short, the notion that protection saves jobs is a fallacious one.

Protecting market share by a stringent quota system is, rather, an expensive method to maintain jobs. The Federal Trade Commission has estimated that textile jobs protected by quota arrangements cost the U.S. economy roughly $35,000 for each job protected. Adjustment assistance and retraining programs for displaced workers seem less expensive, and a more permanent solution.

And who pays the price for the subsidization of these textile jobs and for the stringent quotas? The U.S. consumer, naturally. As previously mentioned, it is an unfortunate fact of life that such costs are passed on to the consumer. In a nutshell, quotas mean higher prices for U.S. consumers. And unreasonably restrictive quotas mean even higher prices. Recent experience with the Japanese automobile quota system proved this economic truism.

In addition to bearing the cost of subsidizing textile jobs and of stringent quotas, the American consumer is walloped again by S. 680's creation of an import licensing system. Aside from the inevitable consumer costs, a licensing system would create a bureaucratic nightmare for importers and an administrative nightmare for Customs import specialists at the ports. The taxpayers, too, would have to pay for additional manpower at the Department of Commerce, the agency in charge of administering the licensing system.

It is the consumer, again, who suffers at one of the most ill-conceived provisions of S. 680--the provision which would include non-MFA fibers such as silk, ramie, and linen, within the quota scheme. A reduction to imports of these materials would only harm American consumers since silk, linen and ramie have never been domestically produced in large quantities. Imports of these products have never harmed U.S. manufacturers. Hence this provision should be dropped immediately.

The Limited's concern is that, notwithstanding the American consumer's desire for choice, United States trade policy is drifting into the hands of extremists. As the world's largest and still the most efficient and productive country, we clearly stand to reap the largest benefit from a broad and fair free trade system, and will lose the most from unrestrained protectionism.

Admittedly, many Americans believe that other countries are taking advantage of us. These feelings make it harder for those who want maximum liberalism in trade arrangements to defend their position against narrow protectionist interests. Ironically, certain countries perceived as least cooperative in liberalized trade, such as the European Economic Community, are exempted from coverage. On the other hand, the ones who will be hurt are precisely those developing countries like China, and those small emerging entrepreneurial economies like Hong Kong and Singapore, who have worked most diligently to achieve a fair, mutually beneficial, and expanding trade base.

With respect, The Limited believes that what really is needed is a trade policy that will fight with patience for the responsible high ground: A policy that will work with equal vigor for continuing trade liberalization to the benefit of all countries--but most clearly the United States--and the tough elimination of unfair discrimination against U.S. exports. Such a policy renders unnecessary legislation reminiscent of Smoot-Hawley and its mutually destructive trade wars. Within our desired trade policy, there is plenty of room to provide targeted support for those segments of American industry, including textiles, which, while currently troubled, can look to survive profitably into the 21st Century. Every state in the Union would benefit from such a responsible trade policy. It is manifestly clear that the Textile and Apparel Trade Enforcement Act of 1985 has none of the characteristics of such a policy.

Thank you.

SUMMARY

1. S. 680 is a costly protectionist measure transparently masquerading as a trade enforcement measure. It not only threatens to impose further harm on an already troubled U.S. retail industry, but seriously threatens the deficit-plagued U.S. economy and debt-ridden economies of foreign nations trying to develop.

2. In singling out import competition as the perpetrator of their suffering, the domestic textile and apparel industries have glossed over the obvious problems of an all too strong dollar as well as weak, non-imaginative U.S. industry management. When one considers the individual problems of the domestic textile and apparel industries, in light of consumer supply and demand, a more balanced perspective comes to light. In order to achieve a proper analysis of issues, we must clearly distinguish between the textile and apparel industries.

3. A free-trade measure, such as an expansion of Item 807.00 of the Tariff Schedules of the United States, is a far more suitable way of assisting the domestic textile industry than the protectionist legislation, which certainly will have adverse consequences within the international trade community.

4. Inasmuch as the domestic apparel industry is unable to produce every apparel product demanded by American consumers, foreign manufacturers fill an important need, be it price, quality, or fashion. S. 680's new stringent quotas and cutbacks will cause imported goods to rise in price. This is not in the American public's interest.

5. S. 680's curtailment of foreign apparel exports has an adverse impact on the U.S. economy, given the heavy debt obligations owed to the U.S. by targeted foreign countries, and the ensuing inability of foreign countries to purchase U.S. exports of certain industrial and

agricultural products. The flagrant disregard of our international agreements will invite foreign retaliation, and result in the loss of American jobs.

6. The American consumer currently shoulders the burden of subsidizing U.S. textile jobs and stringent MFA quotas. The Federal Trade Commission has estimated that textile jobs protected by quota arrangements cost the U.S. economy roughly $35,000 for each job protected. S. 680 unfairly would add to this burden with new quotas and cutbacks, an export licensing system, and extended coverage to non-MFA fibers.

7. What is needed is a responsible trade policy that will work with equal vigor for continuing trade liberalization to the benefit of all countries--but most clearly the United States--and the tough elimination of unfair discrimination against U.S. exports. It is manifestly clear that the Textile and Apparel Trade Enforcement Act of 1985 has none of the characteristics of such a policy.

Senator CHAFEE. Now, as I read your statement, first of all on page 1 you touch on something that I certainly agree with, that one of our problems is the strong dollar, which of course relates directly back to our deficit.

But then you say you also blame the nonimaginative management of U.S. industry.

Mr. TRUST. Yes, sir.

Senator CHAFEE. Could you amplify on that a little bit? You touched on it, and you heard the testimony of the prior panel.

Mr. TRUST. Yes.

I believe that in my experience the prior panel hit upon the issues, and that is why I didn't want to repeat them. They have really covered the waterfront.

American manufacturers have got to become market-driven. The ladies who go out and shop for our goods have an enormous choice of product when they go into the average shopping center today. And to the extent that American apparel or textile producers are mill-driven and factory-driven and production-driven, we think they are out of sync with the world.

It is kind of amazing to me that we haven't learned our lesson from the automobile industry. Japanese cars ain't cheap. They're good. And Hong Kong sweaters ain't cheap; they're good. And we shouldn't kid ourselves to think that we've got a whole bunch of Japanese working in Osaka for a bowl of rice a day and that's why we are able to bring their products in inexpensively. It is just not the case.

So, I think the point the other panel made about becoming responsive—I have noticed in the last 12 months apropos of one of the comments one of the other panel members made, that American people and one company in particular, TEXFI, who was almost down the tubes 3 or 4 years ago, now suddenly has a new president. He was up to see us. He is alert, responsive to the market, and we are doing a whole lot of business with him. I wish there were more of those people around.

I also would point out, Senator Chafee, that the ripple effects that you had brought up before are serious for us. You know, if we have to cut back on apparel products sold in our stores, and we have to push out about 100 million garments a year to our store operations, if we only get 60 of them or 70 million of those products, what about all the things that go with apparel products? What about the hosiery that we make down in North Carolina? What about the polyester products that we buy out of Georgia? All of that stuff goes as well.

Senator CHAFEE. I wasn't able to read all your testimony here, but it seemed to me that around page 4 you were recommending that the United States concentrate on the long runs and the mass production. I may have missed it here, but on the bottom of page 3 you say, "It follows that the domestic textile industry should be exceptionally competitive in the world market, in that it is capital-intensive, which makes it a natural industry for the United States Hence, if the United States wishes to place its resources where it will do the most good, we believe the domestic textile industry would be worth nurturing for long-term viability."

And then of course you talk about amending 807, and I think that makes sense. In other words, so that if we produce the yarn that was shipped overseas that was included in the product, that that would be considered as a U.S. component, which apparently it is not now, which seems very odd.

Mr. **Trust**. I think the point I was making with respect to the long-term viability of the textile industry is, we really see the business in two segments. We think there is an apparel industry in this country, and we think there is a textile industry in this country. And unfortunately, they are not combinable.

The textile industry, in our opinion, makes very good stuff. We make excellent fabrics for denim, we make excellent corduroys, we make excellent velours, we make excellent polyester fabrics. We are good at it; we should do everything we can to nurture that industry.

On the apparel side, we are not as competitive, particularly in the sweater area. We are better in the bottoms area. We make an enormous amount of jeans in Alabama, we make an enormous amount of jeans in Georgia, because we are good at that; it can be mechanized, we can put up operations that are very efficient. That kind of business will always be a U.S. business, in our opinion, and trade legislation will not change that. Where we are bad at something, for example in the sweater area, there is equipment today that can be bought that is computer-controlled, it turns out phenomenal amounts of merchandise. There needs to be capital put into that kind of an operation in order to make us competitive in the world market.

You know, the funny part about it is, here we are, a country that is able to turn out goods in the southern part of this country and deliver it in hours. And here we are chasing off to Hong Kong and Taiwan. God knows, we have two factories in Mauritius. Most people don't know where the hell Mauritius is. And we are bringing product out of there because we have such a difficult time getting American manufacturers to respond.

Senator **Chafee**. Now, let's hear from—this is a little difficult, we've got a full house here.

Why don't you go ahead, Mr. Reams?

STATEMENT BY TIMOTHY REAMS, SENIOR VICE PRESIDENT, MATTEL, INC., HAWTHORNE, CA

Mr. **Reams**. My name is Timothy P. Reams. I am senior vice president of Mattel, and I am here to speak on behalf of Barbie, the world's most famous fashion doll, and the related line of products.

I would like to emphasize two points. First, products imported by Mattel and affected by this legislation are typically not manufactured in the United States. They do not compete with products manufactured in the United States, and our cost analysis indicates that they would not likely be manufactured in the United States.

Two, Mattel produces complete product lines. Those product lines typically consist of large, complicated products that are domestically sourced, either manufactured in the United States or manufac-

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tured from products produced in the United States, and lower cost imported products which balance the product line.

An example of this is, again, our Barbie products. We manufacture accessories in the United States or from products sourced in the United States. That includes dollhouses, swimming pools, automobiles, bicycles, and the like, and those are supplemented with Barbie dolls in doll costumes imported.

For 1984, approximately 33 percent of the total Barbie line was in accessories.

We believe that if this legislation is enacted it would adversely affect our manufacturing here in the United States and therefore jobs in the United States, in the manufacturing sector, in the retail and wholesale sector.

Senator CHAFEE. Thank you, Mr. Reams.

Why don't we take Mr. Fortino from Kenner Products?

Mr. Fortino.

[Mr. Ream's written testimony follows:]

STATEMENT OF

TIMOTHY REAMS, SR. VICE PRESIDENT
MATTEL TOYS

Mattel is a multi-national toy company employing over 28,000 people worldwide, 5,000 in the United States. Our manufacturing operations are located in the United States and in many other countries of the world. The manufacturing facilities are supported by materials that are fabricated in several additional countries other than those involving manufacture or assembly. Mattel produces complete lines of products such as the Barbie doll and a full line of accessories rather than a single product such as a large doll. Various articles included in a particular product line are typically sourced in several countries. Some of the articles in any product line are critical to the success of the line in the marketplace. A restriction on availability of part of a line, for whatever reason, will affect the total production of all articles in the line. Any reduction in production will, of course, mean some loss of jobs in the country in which the production decrease incurs.

The Textile and Apparel Trade Enforcement Act of 1985 is a broad-based act placing restrictions on products which restrictions will not implement the policy criteria of the Act. As stated in the legislation, the policy of the Act is:

1. to prevent further disruption of the United States textiles and textile products market;
2. to prevent further damage to United States textile and apparel manufacturers;
3. to prevent the further loss of jobs by United States workers; and
4. to implement the objectives of the Multi-Fiber Arrangement by requiring the effective enforcement of import levels of textiles and textile products contemplated by the Multi-Fiber Arrangement.

Mattel was quite surprised to discover that the provisions of this Act extended to subpart E, part 5, schedule 7, T.S.U.S., the tariff section that includes "Models, Dolls, Toys, Tricks and Party Favors". Specific item numbers affected encompass doll clothing, dressed dolls, doll skins, stuffed animals, animal skins, etc. Mattel respectfully submits that the inclusion of subpart E, part 5, schedule 7, T.S.U.S. in this Act does little to support the policy or objectives of the Act and would, in fact, result in the loss of jobs in the United States.

In order to illustrate our position, we have chosen to show how this bill will affect the Barbie line of dolls and accessories. Vital to this line is Barbie doll clothing. The amount of textile yardage used in Barbie doll clothing compared to the current level of imports of textiles and textile products, which is stated in the Act to be 9,800,000 square yard equivalents in 1985 is miniscule. Barbie doll dresses have never been made in the United States since the Barbie line of products were launched in 1958. The increase in the level of imports of textiles and textile products in recent years cannot be attributed to Barbie doll clothing. Similarly, imports of Barbie doll clothing have not caused the loss of U.S. jobs.

On the other hand, restricted imports of Barbie doll clothing will affect U.S. employment. In 1984, Barbie sales accounted for 24.3 percent of total U.S. sales of Mattel products. Using a ballpark analysis, approximately 1,250 Mattel employees in the United States are dependent on Barbie sales. However, the potential job loss, if restrictions are placed on the import of Barbie doll clothing will extend beyond Mattel. The U.S. manufacture of Barbie accessories would be curtailed, advertising dollars would be scaled back, vendors producing raw materials for both U.S. and Mattel's Mexican border operations would be affected, and licensees manufacturing products for the Barbie line would feel the pinch. Even transportation employees, customs brokers and retail clerks would be affected, to some degree.

It is difficult to predict the impact that this legislation will have on the import of Barbie costumes, if enacted. If we assume that Barbie doll clothing would be limited to the level of 1982 imports, the potential loss of sales (wholesale) will be approximately $275 million in 1986. This would close one distribution center in the United States, 6,000 employees would lose their jobs overseas, and domestic taxes would be reduced by $39 million.

The inclusion of subpart E, part 5, schedule 7, T.S.U.S. in this bill is a shotgun approach to a problem that was not created, not contributed to, by the toy industry. A specific Barbie doll dress industry has never existed in the U.S., and there isn't a doll dress industry in existence in the U.S. today. Aside from the potential job loss, it is unfair to saddle an industry with the import restrictions, administrative costs, and market disruptions of absolute quotas when the industry affected did not contribute to the problem. The overkill in this bill by the inclusion of subpart E, part 5, schedule 7, T.S.U.S. should be eliminated.

STATEMENT BY JOSEPH FORTINO, JR., SENIOR VICE PRESIDENT FOR OPERATIONS, KENNER PRODUCTS, CINCINNATI, OH

Mr. FORTINO. Senator Chafee, I am Joseph Fortino, Jr., senior vice president of operations for Kenner Products. My company is grateful for this opportunity to present its views to the Senate Finance Committee.

Kenner employs 2,000 hourly and salaried workers in its facilities in Cincinnati, OH. In 1985 alone, approximately 375 to 400 of these employees worked solely on the packaging and distribution of stuffed toys manufactured in foreign locations.

Kenner and many of the other U.S. toy manufacturers operate in what we call a twin plant concept—that is, a portion of the manufacturing work on these toys is performed offshore and a portion is performed in the United States. It is only the availability of low-cost foreign-manufacturing operations which makes possible the economically feasible production and sales of these products.

Our company's position is very similar to the statements you have heard from other members of the toy industry. We, Kenner, cannot market a saleable product produced solely in the United States, for the added cost to this product would not be accepted by the consumer.

The passage of Senate bill 680 into law would have a significant negative impact on the U.S. labor force employed in the value-added and distribution functions of our company and our industry. The jobs of 375 to 400 American Kenner employees packaging and distributing our stuffed toys would be lost. Additionally, there would be a ripple effect throughout our company, affecting salaried workers in the staff areas of engineering, design, marketing, quality control, finance, and administration.

I have not attempted to estimate the additional lost jobs within these functional areas.

In addition to the jobs lost at Kenner, we purchase approximately 10 to 12 million dollars' worth of U.S.-manufactured production supplies each year in support of our stuffed toy line. This would also be eliminated by the passage of Senate bill 680.

We are only one company. The cumulative effect upon all U.S. toy manufacturers and their suppliers would be dramatically higher. Everyone agrees that the inclusion of toys in Senate bill 680 was a mistake. Let's not let that mistake become a law. A substantial number of U.S. jobs are at stake.

Thank you for your assistance on this important matter.

Senator CHAFEE. Thank you very much, Mr. Fortino. I am aware of this problem, and I will certainly do all I can to straighten it out.

[Mr. Fortino's written testimony follows:]

STATEMENT OF
JOSEPH FORTINO, JR.
SENIOR VICE PRESIDENT OPERATIONS
KENNER PRODUCTS

Mr. Chairman, I am Joseph Fortino Jr., senior vice president of operations for Kenner Products.

Kenner Products is grateful for this opportunity to present its views to the Senate Finance Committee.

We feel the inclusion of toys in S. 680 is an oversight. The House and Senate sponsors of this legislation agree with us. So do representatives of the domestic textile industry. We hope that the committee also will agree that it is inappropriate to cover toys in this legislation and will delete these products from any bill that is reported out of committee.

The bill as presently drafted would extend textile quotas to stuffed toys that are imported from our primary sources. This imposition of quota would result in dramatically higher prices for stuffed toys to the U.S. consumer but would result in no benefit whatsoever to the U.S. textile industry.

Congress is focusing on trade legislation this year because domestic manufacturers are concerned that imports eliminate American jobs. That problem, however, does not exist in the stuffed toy industry because most stuffed toys have been manufactured outside of the United States for many years. Virtually all U.S. toy companies source their stuffed toys overseas because of the highly labor-intensive nature of the production process. Only a few companies that specialize in large stuffed toys or in special collectors items still produce these items in the United States. These companies would not be adversely affected by deleting toys from the Bill.

On the other hand, domestic jobs would be lost if stuffed toys are not excluded from this legislation. Kenner employs 2000 hourly and salaried workers in its facilities in Cincinnati. Most of these jobs depend upon the availability of low-cost foreign imports. Kenner's engineering, design, marketing, quality control, financial, and administrative staffs are all based in Cincinnati, and a substantial number of the hourly workers unpack toys shipped in bulk from overseas and repack them in smaller containers to be sent to retail stores. If S. 680 is not amended, many of these jobs would be lost. Our competitors also would be forced to reduce their work forces.

Certain support industries also depend on the availability of low-cost imported toys. Jobs in domestic transportation, corrugated cardboard, printing, machinery, etc. would also be lost if low-cost imported toys were not available.

The Care Bears manufactured by Kenner are a case in point. Care Bears are manufactured in Korea and Taiwan. If. S. 680 is enacted without change, it will be virtually impossible for Kenner to continue manufacturing this popular product in the Orient. We could manufacture Care Bears at other locations, but production costs -- and consumer costs -- would escalate dramatically, thereby putting Care Bears out of the economic reach of most American parents. We would eventually be forced to discontinue the entire line.

Congress has long recognized that stuffed toys are manufactured overseas. Stuffed dolls imported into this country are presently exempted from customs duties. This exemption was established two years ago in legislation sponsored by Rep. Frank J. Guarini (D-NJ).

At the time the Guarini bill was enacted, the Congress recognized that imposing customs duties on stuffed toys could only add to the cost the U.S. consumer had to pay for toys without producing any countervailing benefit for the U.S. textile industry.

S. 680 as presently written would reverse this policy. It would impose a quota system on stuffed toys that would place price controls in the hands of the overseas companies that control quotas. Quotas -- not product -- would be bought and sold, and this process would lead to increased manufacturing costs and increased consumer costs.

Kenner hopes the Senate will continue to recognize that stuffed toys are not import sensitive by deleting stuffed toys from S. 680.

We thank you for your assistance in this important matter.

Senator **Chafee**. Senator Grassley.

Senator **Grassley**. I thank you, Mr. Chairman, because I have to go preside over the opening of the Senate from 12 to 1. I didn't have a chance to hear all of your testimony. But would it be a fair assessment to say that if S. 680 passes, that the long-range job loss is greater in unrelated and related industries compared to the jobs saved in the textile industry? Is that what each of you is basically trying to tell us?

Mr. **Thomson**. Senator Grassley, let me take a shot at that.

Right at the present time, the textile industry literally has very few jobs, if any jobs, that are related to the toy industry. The amount of fabric that is involved is very miniscule compared to the large volumes that they do in apparel and graygoods and all the other things. So we see this as a net loss, as a complete loss, job for job, that as we are restricted in bringing these items in, if the price rises the consumer simply isn't going to provide them, so we are going to produce fewer. And when the supply goes down, the price normally goes up. We will have just a net loss, a complete loss, of these jobs that Mr. Fortino has mentioned and Mr. Hassenfeld and Mr. Reams.

Senator **Grassley**. That is the consensus of you all. I can tell by the way you are shaking your heads.

Mr. **Hassenfeld**. Yes, sir.

Mr. **Trust**. Senator, I would add the fact that the sense we have is that not only do we lose in respect to the way the toy manufacturers have expressed it but, to the extent that this boils over into other areas, obviously there is going to be retaliation of one sort or another. And if ultimately soybean producers get hurt, the ripple effect of that into their areas certainly can't help this economy.

We believe, based on our understanding of what foreign governments are thinking about us, they are going to have to come back and get their pound of flesh some way.

We are very concerned, because none of us understand how that is going to be extracted; but we believe that it can't be beneficial to other segments of the American economy, and right now I guess the farm segment of the economy is not in great shape to begin with. Certainly, impacting them further would not be helpful.

Mr. **Hassenfeld**. Senator Grassley, just to go one step further, I would say that for the whole toy industry we are in unanimity on opposing the inclusion of the toy industry as part of the textile industry.

At the present time it is almost axiomatic in the sense that all of the toys that we are talking about enter the United States not GSP but free of duty. And if there had been, when this legislation was passed 3 or 4 years ago to allow these products to come in duty free into the United States, there would have been a lobby or a hullabaloo basically not to allow this to happen. But there was none.

Ms. **McManus**. Senator Grassley, I would like to emphasize again that our domestic production did increase, and we did create jobs within our company by adding an import division.

Senator **Grassley**. I am from an agricultural State, and Mr. Trust brought up agriculture. I wouldn't expect you to be experts on agricultural trade but, because of your relationship with people who are involved, I would ask if there are any specific points you could make in regard to international trade generally that Mr. Trust made, that there might be some retribution that would be negative to agricultural interests in my State—not in my State—I should say U.S. agriculture generally that I would like to have you respond to.

Based on the fact that we have not had agricultural groups testify against this bill, even though it is my understanding from staff that we have had letters from agricultural groups in opposition to the bill.

I just wondered if by their lack of testifying, if you could fill in from your relationship with people in other countries how their political leaders might see possible retaliation against agriculture—and specific references that you could make.

Mr. Trust. I think my general comment, Senator, was prompted by two specific instances. One is the fact that in our association with the Japanese—we have an office in Osaka. The Japanese, in our discussions with them, have indicated that they are going to have to look for ways of cutting back on U.S. imports. And I gather from their comments on agriculture, that is a major area of their importation.

The second specific instance relates to a Chinese group we entertained in Boston about a week ago. They were from the Kwan Dum Province, and pointed out that they are looking around for ways that they are going to have to impact their imports from the United States. And clearly, agriculture, again, whether it is oranges or soybeans or wheat, are the areas that they will have to look at.

So I relate it to those two specific countries. Beyond that, I don't have any other specific areas.

Senator Grassley. I appreciate that, and it is very helpful to have those specific conversations you have had.

Have any of you anything else to add to that?

Mr. Hassenfeld. Yes, Senator Grassley, if I may for a second. I don't think you can take S. 680 alone as it pertains to the farmers; I think you have to look at all of the trade bills that are being proposed. And if you go and isolate one bill and one bill and one bill, all of them together must have some type of disastrous effect on our trade relations with our partners around the world. You cannot live in isolation. If you basically go after and want to do damage to the Japanese—again, we might not perceive it as damage to the Japanese, but they perceive that we are going against them—they have to try to protect themselves. There must be—the minute that you go away from a laissez faire policy and begin to put up the walls, someone will try to put up further walls to protect their own economies. It must be.

Senator Grassley. I don't have any other questions, but I would make a closing comment, that all of you at times would feel that certain mechanisms that are on the books for the enforcement of free trade, to see that it is fair trade, I am sure you all agree that those should be enforced. Maybe we don't need any more laws on the books, but there has surely been a lack of interest here in Washington under more than one administration in enforcing and using enforcement standards that we have. And, as bad as you might see these bills being, I am sure that you would also have to agree that there probably would be very little movement on the part of this administration or probably any other administration to the enforcement of the laws.

Like the speech the President is giving this morning or the news conference that was held yesterday afternoon by the foreign ministers of the leading three economic countries in the world, none of that would probably be happening if it hadn't been for some pressure from Congress here in these bills that we are discussing now and what is being carried on in the House Ways and Means Committee.

That is all I have, Mr. Chairman.

Senator CHAFEE. Thank you, Senator Grassley.

I have a question for Mr. Wagner.

If the MFA, the Multi-Fiber Agreement, is such a flexible regulatory framework, why is it that the textile industry is complaining so vigorously about a surge in imports? Can we get the conclusion from that that the MFA isn't working too well?

Mr. WAGNER. That would be my conclusion, yes, that it is not being enforced.

Senator CHAFEE. Oh. You think it is not being enforced, rather than—I mean, you think as an agreement the tools are there, but the United States for example, on its part, or the members of the MFA just aren't enforcing it?

Mr. WAGNER. Yes. And the tools are there to deal with each instance on an individual basis.

Senator CHAFEE. I see.

All right, gentlemen and lady, you have done a good job, and we appreciate your coming down and testifying. Thank you very much.

[Whereupon, at 11:55 a.m., the hearing was concluded.]

[The following statements were submitted and were made a part of the hearing record:]

EXECUTIVE SUMMARY
of
Statement in Opposition to

Textile and Apparel Trade Enforcement Act of 1985
(S. 680)

by
Import Committee
of the National Handbag Association

The U.S. industry producing handbags of textile materials is not a distinct "textiles" industry but is part of a larger U.S. handbag industry. Handbags of textile materials along with a myriad of other materials compete in a single market with handbags of leather and plastics, which together account for approximately two thirds of domestic shipments of handbags. Virtually all domestic producers manufacturing handbags of textile materials manufacture handbags of other materials as well, particularly leather.

The imposition of quotas and reductions in trade of textile handbags under S. 680 would not benefit a "textiles" industry, but would be extremely harmful to U.S. handbag importers. Imports of cotton and man-made fiber handbags from "major" exporting countries would be cut back substantially, in some cases by as much as 90 percent, and imports of textile materials not indigenously produced in the United States such as silk, linen, burlap and jute would also be cut back substantially. In addition, the import licensing scheme established under S. 680 would create an onerous administrative burden on U.S. handbag importers, many of whom are small businesses, and would place them at a competitive disadvantage against larger importers and retailers of handbags and other products competing for the same quota with handbags.

The U.S. handbag industry does not need import relief, as domestic shipments of handbags have grown in 1983 and 1984. However, it would harm many domestic manufacturers of handbags who import textile handbags to supplement their product lines.

For these reasons, the Handbag Import Committee opposes S. 680.

STATEMENT OF DAVID HARARI

Vice President of Sarne Corporation
On behalf of the Import Committee
of the National Handbag Association

The Import Committee of the National Handbag Association ("The Handbag Import Committee") wishes to express its opposition to the the Textile and Apparel Trade Enforcement Act of 1985 (S. 680). The National Handbag Association (which itself takes no position on S. 680) consists of 102 companies involved in the domestic manufacture and importation of handbags, belts, and personal leather goods, including 42 importers and 28 importer-manufacturers of these products.

The Handbag Import Committee opposes S. 680 because it would impose quotas and severely cut back imports of handbags despite the fact the U.S. handbag producing industry is not a "textiles" industry and despite the fact that the U.S. handbag producing industry does not need protection from imported handbags manufactured of textile materials.

The U.S. Handbag Industry is Not a "Textiles" Industry.

The U.S. handbag industry is not a "textiles" industry as that term is commonly understood. Handbags are manufactured of a wide range of materials, the most important of which include leather, plastics (vinyl and polyurethene), and straw, as well as textile materials, including textile materials not commonly produced in the United States such as silk, linen, burlap, jute, and such exotic products as banja (a heavy cotton upholstery fabric from India). In addition, handbags are manufactured of a myriad of other materials: metal, wood, lucite, caning, wicker, horsehair, rubberized cotton, beads. Handbags manufactured of various materials all compete in the same market. Within the U.S. handbag market, numerous factors determine the relative importance of various materials used in handbag production. As fashion accessories, handbags are subject to significant shifts in the relative importance of materials as a result of changes in style. Style changes and costs also result in longer term trends in favor or against certain materials. For example, improvements in styling and material quality led to increased usage of synthetics in the early 1970's, while more recently, rising costs of these materials resulted in a shift away from synthetics and an increase in the use of the leather in handbag manufacture. Even within narrower submarkets--i.e., luggage, large casual bags, tailored day bags, formal day bags, evening bags, travel bags, etc.--handbags manufactured of different materials compete with each other.

The U.S. handbag industry is generally recognized as a leather goods industry. The U.S. Census Bureau classifies handbags and purses under SIC 3171, part of SIC 31, "leather and leather products." In fact, no breakout for statistical purposes exists for textile handbags. Instead, these products are part of a miscellaneous grouping "other materials, except precious metal" for handbags not of leather or plastics. The most recent data breaking down the handbag industry by segments in the 1982 U.S. Census of Manufacturers, show leather accounted for approximately 47 percent of domestic shipments, up substantially from 25 percent less than ten years before. Plastics, while declining in popularity, were nevertheless the second most popular material used in handbag manufacture accounting for 22 percent of domestic shipments, with other materials accounting for approximately 14 percent and handbags of unspecified materials accounting for 21 percent. Similarly, a recent survey of U.S. purchases showed leather accounted for 45 percent of the surveyed sales, vinyl 25 percent, and canvas 19 percent, with miscellaneous materials accounting for the rest.

U.S. handbag producers typically do not specialize in the manufacture of handbags of a single material. Apart from a few manufacturers producing leather handbags exclusively, virtually all domestic handbag producers who are NHA members manufacture handbags of more than one material, with most using leather and either vinyl or textile materials or both.

In sum, a separate textiles handbag industry does not exist in the United States. Handbags in a wide range of materials are manufactured by the same domestic producers and compete in the same market along with an equally diverse range of handbag imports. Moreover, textiles are not the most important material in the manufacture of handbags in the United States, being overshadowed both by leather and plastics.

In view of the structure of the industry and the U.S. market, the imposition of import restrictions on handbags of textile materials would principally benefit non-textile handbag production in the United States and would harm handbag importers by limiting the availability of an important group of products for many importers.

The Impact of S. 680 on U.S. Handbag Importers.

The enactment of S. 680 would have an extremely harmful impact upon U.S. handbag imports, reducing importations across a wide range of products. Cotton handbags are classified in the "basket" category for "other cotton manufactures"--Category 369. Under S. 680, a single quota would be imposed on all imports under this category from each exporting country, and imports under Category 369 from the most important sources of cotton handbags would be cut back substantially: U.S. imports from China would decline by 79.2

percent from 1984 levels; imports from Taiwan would decline 89.7 percent; imports from Korea would decline 25.4 percent.

Imports of man-made fiber handbags are part of Category 670, luggage, handbags and flat goods of man-made fibers. These products would also be cut back substantially under the Bill. The precise amount of the cutback is impossible to calculate as the U.S. Government did not collect statistics on the quantity of U.S. imports in products under Category 670 in 1980, the base year for determining quotas on imports from "major" exporting countries under the Bill. However, the Luggage and Leather Goods Manufacturers of America in their Statement of September 12, 1985, requesting an exemption from the 1980 base for luggage and flat goods, estimated that imports from Taiwan would be cut back 60 percent and imports from Korea would be cut back by 75 percent under the S. 680 formula.

Imports of handbags in silk, linen, burlap, jute, and other fibers--products not subject to the imposition of quotas under the MFA--would be cut back enormously and extremely restrictive quotas would be imposed under the Bill. These products would be classified in a single category covering all "other textile products" not of MFA fibers, and would be subject to a single quota for the full range of such products. The precise amount of the cutbacks from "major" exporting countries is impossible to determine because of the broadly defined scope of this category and the incompatible import statistics on these products. However, the minimum quota under the Bill for this category would be one million square yard equivalents--a minuscule amount for the numerous products covered under the category.

S. 680 would also require the establishment of an import licensing scheme for all textiles and textile products. Such a scheme would be disasterous for U.S. handbag importers. The administrative documentation and recordkeeping needed to obtain these licenses would be enormously burdensome for these importers which are typically small companies. Handbag importers will be forced to compete in many cases with importers of textile products other than handbags, including large importers and retailers.

The U.S. Handbag Industry Does Not Need Import Protection.

There is no economic data available on the U.S. producers of textile handbags as a distinct industry, and it is extremely difficult to develop useful data by material because of the large number of small establishments which make up the handbag industry. In this regard, the U.S. International Trade Commission in a recent study on flat goods, luggage and handbags of man-made fibers (U.S. ITC Pub. 1737, August, 1985) concluded there is no definitive listing of firms of these industries and that the data it collected on the handbag industry in all likelihood significantly understated its size.

However, U.S. statistics on the U.S. handbag industry generally show the industry is growing. Domestic shipments of handbags and purses grew from $623 million in 1982 to $646 million in 1983 and $700 million in 1984, an increase of 3.7 percent and 8.4 percent respectively.

Domestically produced handbags are competitive with imports in the U.S. handbag market in areas where U.S. producers are able to capitalize on certain strengths such as quality, proximity to customers, short order response time, and more fashion awareness. In the case of textile handbags, domestic producers capitalize on these advantages, particularly turn around time between orders and delivery, and remain competitive in many products. This contrasts with the plastic handbag market which has declined overall in recent years while the textiles handbag market has grown. Under these circumstances, no justification exists for the imposition of quotas and cutbacks in imports of textile handbags which would result from enactment of S. 680.

The enactment of S. 680 would reduce the availability and diversity of textile handbags in the U.S. market, thereby reducing demand for handbags and increasing their price. This would harm not only importers of these products; domestic handbag manufacturers themselves would be harmed. It is estimated that over 50 percent of U.S. handbag manufacturers import handbags to supplement their domestic production. Thus, the loss of imports would undermine the viability of these manufacturers as well as the viability of importers generally.

bread for the world
a christian citizens movement in the usa

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U.S. Representative from Texas

STATEMENT OF BREAD FOR THE WORLD
BEFORE
THE INTERNATIONAL TRADE SUB-COMMITTEE
OF THE
SENATE FINANCE COMMITTEE
ON
THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

Prepared by
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SUMMARY OF BREAD FOR THE WORLD'S STATEMENT ON THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

1. Bread for the World, a nationwide grassroots, anti-hunger Christian movement believes that international trade provides a chance to break the cycle of poverty, hunger and economic injustice by providing jobs for workers, enhancing competition, and providing foreign exchange for international transactions.

2. We believe that the protectionist nature of the Trade Enforcement Act of 1985 would hurt (a) low income producers, exporters and consumers of textile and related commodities in the United States and (b) the poorest textile exporting developing countries and their poor people in Africa, Asia and Latin America. The Trade Act would exacerbate the human and social costs in LDCs relying heavily on the most needed foreign exchange abroad for the payment of their huge debt burden and interest rates.

3. We hold strongly that Trade Enforcement Act violates the Multi-Fibre Arrangement (MFA) between the U.S. and 42 textile and apparel producing developing countries. This violation of U.S. international obligation is morally unjustified and invites retaliation from MFA members. Such retaliatory measures as may be taken, would be harmful to U.S. consumers. Essentially, the budget of some 21.2 million people in about 7 million household already in the low-income bracket and receiving food stamps to supplement their poor living conditions would be hardest hit.

4. We believe that tariffs and quotas almost always lower world well-being. It creates a monopoly that leads to higher prices, lower output, and greater national losses.

5. Bread for the World is therefore opposed to the legislation in its current form. Our members believe that the remedy to the problem of textile and apparel industry, like those of other sectors, lie somewhere else.

6. We believe that the root cause of the problem revolves around two issues (i) the over-valued dollar, and (ii) U.S. deficit spending and flawed monetary policy.

7. While opposing the current Trade Act, Bread for the World recommends the expansion of the Trade Adjustment Assistance (TAA) to enable U.S. workers and businesses hurt by foreign trade competition adjust to long-term shifts in the global economy.

8. Rather than increasing protectionism, Bread for the World believes that what is needed to protect U.S. workers without hurting our low-income consumers and people in LDCs is finding solution on the over-valued dollar and U.S. deficit spending. The legislation serves only to treat the symptoms of U.S. problems, and not the root cause.

Mr. Chairman and Members of the Senate Subcommittee on International Trade of the Senate Finance Committee, we appreciate this opportunity to be able to express our view on the Textile and Apparel Trade Enforcement Act of 1985 (S. 680 and H.R. 1562). We are particularly concerned about its effect on (a) low income producers, exporters and consumers of textile and related commodities in the United States and on (b) the poorest textile exporting developing countries and their poor people in Africa, Asia and Latin America.

My name is Dominic Kwang Ncube. I am a policy analyst on trade and finance issues with Bread for the World. I am also a Bread for the World resource person on African affairs.

Bread for the World is a nationwide grassroots, anti-hunger Christian movement with a membership of over 48,000. The movement recognizes that the hungry, whether found in the slums of Cairo in Egypt, in the cities of the U.S. or in a textile factory in Dhaka, Bangladesh have a shortage of lobbying advocates on U.S. government policies affecting them. We therefore seek to help fill this gap, and lobby on issues affecting those with little or no opportunity to be heard but who bear consequences of policies formulated by others.

Mr. Chairman, Bread for the World recognizes the importance of international trade for alleviating poverty and hunger. Trade provides a chance to break the cycle of poverty, hunger and economic injustice by providing jobs for workers, enhancing competition, and providing foreign exchange for international transactions. We believe that trade is one of the most common manifestations of the economic interdependence of the South (developing countries) and the North (industrialized countries). Thus, Bread for the World members have worked on international trade issues, including the Caribbean Basin Initiative (CBI). Our members also strongly supported the renewal of the reformed Generalized System of Preferences (GSP) which passed Congress, October 4, 1984. We particularly support its "land for food" provision that requires that appropriate U.S. agencies work with GSP beneficiary countries to ensure that increased agricultural exports do not come at the expense of production of food for local consumption.

Bread for the World is becoming increasingly concerned with the growing protectionism in developed countries (DCs), like the United States, against exports from poor developing countries (LDCs). For the past few years, the administration, despite its preference for free international trade, has implemented new import barriers in four major industries: autos, textiles and apparel, sugar and steel. The general tightening in 1981 of the Multi-Fibre Arrangement (MFA) controlling trade in textiles and apparel, and new protection in sugar, have affected developing countries' export prospects at a time when their need is acute for foreign exchange to make payments on heavy external debts. We are thus particularly concerned with the Textile and Apparel Trade Enforcement Act of 1985.

Mr. Chairman, our understanding of the content of this Trade Act is that quotas would be established for all textile imports on a category by category basis. These quotas would be applicable to all countries except Canada and EC members. The bill defines two categories of exporters: "major exporting countries" are defined as those whose exports to the U.S. account for 1.25% or more of total U.S. textile and apparel imports while "exporting countries" are defined as those whose exports represent less than 1.25% of total U.S. textile and apparel imports. (See Appendix I) We understand that major exporting countries would, on a product category basis, be limited to 1% growth from the level that would have occurred in 1984 if imports had grown by 6% a year from 1981-84, or, if the exporters had an agreement with the U.S. limiting growth to less than 6%, the country's 1984 level of imports. Imports from thereon could grow by 1% annually. On the other hand, "exporting countries" in the first year of the new quotas would be permitted to increase on a product category basis no more than 15% annually above their 1984 levels, except in categories defined as "import sensitive". Import sensitive goods are defined as those imports which equal 40% or more of U.S. production. Growth in imports of these categories would be restricted to 1% above 1984 levels, and could increase thereafter by 1% annually. The legislation also contains provisions which would require the Commerce Department to issue regulations governing the entry of textile and apparel imports, and also to establish an import licensing system wherein all importers of textile and apparel would have to pay a fee for import licenses.

Mr. Chairman, the Trade Act provides little or no allowable growth for any of the exporting countries. Overall, apparel imports from countries targeted by the legislation (category I and II) would be reduced by 20%, while textile imports would fall by 30%. Some of the major exporting countries will experience sharp cuts well over 30%. According to research on the subject by experts already made available to the Chairman during the hearings, there would be an 85% cut back of shipment from Indonesia, 66% from Brazil, 57% from China and 47% from Taiwan. (Appendix II) Further, while the trade law does not roll back imports from smaller suppliers of textiles and apparels such as Bangladesh, Haiti and Lesotho, the quota effectively eliminates "any meaningful growth opportunities from them in the future." The International Business and Economic Research Corporation (IBERC) a Washington, D.C. based research organization which has conducted a study on the Trade Act confirms this fact. The study also indicates that if the proposed legislation had been enacted in 1983, Bangladesh textile and apparel exports to the United States in 1984 would have been only 3% greater than their 1983 volume and 78% smaller than their actual level of 1984. Bangladesh is highly dependent on the U.S. market as over 75% of that country's textile and apparel exports are sold to the U.S.

According to a June 25 article in the New York Times, five U.S. cabinet officials have warned that this textile quota bill that now commands cosponsorship of a majority in both houses of Congress would impose a "very high cost" on consumers, violate international obligations, invite retaliation and provide the domestic industry with "unprecedented" protection. A letter to members of Congress signed by Treasury Secretary James A. Baker 3rd, who is also chairman of the President's Economic Policy Council, Secretary of State George P. Shultz, Commerce Secretary Malcolm Baldrige, Labor Secretary William Brock and Acting United States Trade Representative Michael B. Smith, estimates that the legislation would cost consumers $2 billion annually, and those who would be hardest hit are low-income families. According to the Labor Department's latest available statistics in Interview Survey 1980/81 - Bulletin No. 22-25, a household with income of $5000 in 1980/81 spent $636 annually on apparel, footwear and services including shoe repairs and dry cleaning. A 3% increase in the price of textile and apparel due to a quota indicates that such a family, after an adjustment made for inflation, will now spend an extra $27, bringing the total to $636 + $27 = $663 annually. Such an increase will affect the budget of mainly the 21.2 million people in about 7 million households (1984) already in the low-income bracket receiving food

Mr. Chairman, the World Bank's 1984 World Development Report estimates that by the year 2000 there will be some 600 million people living in "absolute poverty." Former World Bank President Robert McNamara defines absolute poverty as "a condition of life so characterized by malnutrition, illiteracy, disease, high infant mortality, and low life expectancy as to be beneath any reasonable definition of human decency." Mr. McNamara's prophecy is true today. In fact midway through the United Nation's 3rd Development Decade, a vast majority of 2.5 billion people located mainly in developing countries, have witnessed a sharp decline in their living standards. A billion of these people are facing a decline in per capita food production, consumption is declining below acceptable nutritional standards, while at the same time LDCs are facing significant international debt payment difficulties to the point of insolvency. The wrenching effect of these difficulties in terms of human cost is difficult to capture in words. World view recently focused on Ethiopia and other parts of Africa and the world was provided with a grim picture of the acute human tragedy caused by hunger. While poverty is worst in most African countries, conditions are not much better in Bangladesh, Indonesia, Haiti, Brazil and the Philippines, all of which are textile and apparel producing and exporting countries that would be affected by the quota trade bill. The question that immediately comes into one's mind is why so many of the world's people are poor and hungry.

Mr. Chairman, one answer which has emerged in recent years is that a major culprit is structural inequities in the international economic system. Structural inequities, such as the current pattern of trade relations, effectively prevent the conquest of hunger, poverty, inflation and unemployment and result in a continuous widening gap between the rich and poor.

This answer is increasingly the consensus position of poor developing countries leaders. Convinced of the inequity of the present order, they have, as you know, since 1964 called for a "New International Economic Order (NIEO). They contend that LDC purchasing power is declining steadily, due to the low and fluctuating prices of the raw materials they export and the increases in the cost of industrial technology, oil, and other items they import. They cite their countries' small and declining share in world manufacturing and trade, and point with bitterness to tariffs, quotas and other trade barriers which bar their nations' products from ready access to industrialized country markets. They also stress that they are dependent on growing export industries to pay off their escalating debts to the developed world. They claim that they are unequal participants in global political and economic decision-making institutions, such as the UN Security Council, the World Bank and the International Monetary Fund (IMF).

Bread for the World members appreciate the concerns expressed by the poor LDCs and believe that trade is one main solution to the frustration of these countries. Bread for the World therefore thinks trade is important for LDCs for three main reasons: (i) exports pay for imports of food and of machinery and other items necessary to increase productivity. These imports can be paid for only with money earned by exporting goods such as textile and apparel; (ii) LDCs access to outside markets allows these countries to take advantage of economies of scale, and (iii) export earnings are much larger and more dependable than "foreign aid" and other outside assistance - providing more jobs, increased skills and consolidate the independence of these poor countries. Allowing developing countries' exports, therefore, is a far better solution than asking Congress for a moritarium on the $200 billion (1984) owed by these countries to U.S. private and official institutions.

Mr. Chairman, Bread for the World regards trade therefore as a hunger issue and a main way to break the cycle of poverty and starvation in the LDCs. Most of these countries continue to face wrenching IMF austerity measures. The impact of such measures are shifted to low income people at the periphery of the state and international system. Take for example, Brazil - a country that would be affected by the law. Its debt burden was $79.6 billion in 1983. In 1985 it is projected to be $100 billion with a debt service ratio of 43% in 1982 (See Appendix IV). Families see their children starve each day. In fact, about 1,000 children starve in Brazil every day. And the logic is that you must pay the debt and to pay this debt you must work more, eat less, in order to export the resources, soybeans, meat, textile and apparel, etc. Gains from exports go not only to pay the debt but also pay interest on the principal. In 1983 all Latin America countries were paying $30 billion to the industrialized countries on interest alone. This is a transfer of capital from a people that most need the capital. With Brazil's huge debt burden of $100 billion one can imagine the devastating effect of a 66% cut on textiles and apparel imports from that country to the U.S. It would not only mean a sharp cut in production and foreign exchange of one of Brazil's main exports but also implies that the country would be unable to reschedule its debt and honor interest payments on principal. There would also be a down-turn on all the indicators of poverty and development in that country. (See Appendix V) Infant mortality would be on the rise, and so would life expectancy, literacy, caloric intake, poor education, hunger and starvation, abject poverty and political instability that would threaten the very foundation of democracy the world over. Other countries such as Indonesia with a per capita income of $580, Pakistan with a per capita income of $380 and a debt burden in 1983 of $23 billion (Appendix VI), and Bangladesh which would experience a sharp cut of 56% in exports of textile and apparel with a per capita income of only $130 in 1983 dropping from $140 in 1982 (Appendix V), face the same acute teething problems as Brazil. All of these countries and others would experience serious setbacks in their economic development with the imposition of import quotas on the main industry that provides these poor countries with their primary source of foreign exchange which is crucial for international transactions and payment of their debt.

Mr. Chairman, before I conclude, let me refer to the work of Prof. William R. Cline of the Johns Hopkins University School of Advanced International Studies (SAIS) and also of the Institute for International Economics. In Trade Policy in the 1980s, which Prof. Cline edited, a number of issues have been outlined on the textile and apparel industry relevant to the present discussion. Whether in the U.S. or textile exporting LDCs, according to the book, the workers in this industry are predominantly women. In the U.S. specifically, such women are usually over 50 years old. They are also those with no more than elementary school education and in the U.S. they are predominantly minorities. In the apparel manufacturing industries, they reside in predominantly urban, inner-city areas or single-industry rural towns. These workers cannot easily shift to other employment. Textile labor both in the U.S. and developing countries is immobile. They cannot pick up and move easily to new jobs. Thus the unemployed workers most often becomes workers witnout a job for an inedifinite period. For LDCs relying only on one export commodity, a quota brings additional hardship as the country can not easily diversify its exports and markets. In these countries, the Prof. Cline's analysis indicates that quotas on textiles spell disaster for many families. A market monopoly created by the quota, as indicated earlier leads to higher prices of textile and apparel. The beneficiaries of such higher prices in the form of 'economic rents' or profits will eventually be large textile and apparel corporations in the U.S. From this analysis of this industry and the impact of a quota on textiles, one may further ask what would happen to the farmers and herdsmen who supply cotton, flax and wool in LDCs? How about the small factories that harvest silk from caterpillar cocoons and whose livelihood depend on working in these factories in LDCs? What would be the fate of interior designers, garment manufacturers, upholstered furniture manufacturers, industrial producers in the U.S.? What about those making such products as conveyor belts and filter cloths, retail merchandisers in the U.S. of textile fibers, fabrics and finished goods? What would become of the 21.2 million Americans and the nearly one billion people starving in developing countries if such a proportionately large portion of their family budget on clothing - $636 (1980/81) is increased by $27 in 1985? And what would be the fate of the governments of these poor countries hard pressed with huge debt burdens?

Mr. Chairman, whatever the case, tariffs and quotas almost always lower world well-being. They lower the well-being of each nation and as a general rule, whatever a quota or tariff can do for a nation, something else can do it better. Bread for the World is therefore opposed to the legislation in its current form. Bread for the World members believe that continuous imposition of tariffs and quotas on imports from developing countries does not benefit the U.S. economy as a whole and is detrimental to U.S. relations with the affected nations. The remedy lies somewhere else and includes tackling the problems of the over-valued dollar, U.S. deficit spending and flawed monetary policy. Bread for the World continues to advocate expansion of the Trade Adjustment Assistance (TAA) to enable U.S. workers and businesses hurt by foreign trade competition adjust to long-term shifts in the global economy. This, coupled with a sounder, full-employment economic policy, rather than increasing protectionism is what is needed if we are to protect our workers without hurting our low income consumers and people in developing countries. This bill serves only to treat the symptoms of U.S. problems, and not the root cause. Thank you very much Mr. Chairman.

APPENDIX I:

A) Major Exporting Countries:

- Indonesia
- Brazil
- China
- Thailand
- Pakistan
- S. Korea
- Japan
- Philippines
- Hong Kong
- India
- Singapore
- Taiwan

B) Exporting Countries:

- Colombia
- Dominican Republic
- Israel
- Lesotho
- Sri Lanka
- Spain
- Bangladesh
- Egypt
- Haiti
- Malaysia
- Peru

Appendix II

IMPACT OF THE PROPOSED LEGISLATION ON TRADE FROM MAJOR EXPORTERS (Millions of Square Yard Equivalents & Percent)

Country	Textiles				Apparel				Total			
	New Restraint	Actual 84 Trade	Change Quantity	Change Percent	New Restraint	Actual 84 Trade	Change Quantity	Change Percent	New Restraint	Actual 84 Trade	Change Quantity	Change Percent
Brazil	36.3	162.3	-126.1	-78%	30.4	32.7	- 2.2	- 7%	66.7	195.0	-178.3	-66%
China	221.2	545.5	-324.4	-59	205.9	445.3	-239.4	-54	427.0	990.8	-563.8	-57
Hong Kong	211.0	234.1	-23.1	-10	715.1	814.8	-99.7	-12	926.1	1048.9	-122.8	-12
India	121.7	122.0	- 0.3	*	103.4	131.1	-27.7	-21	225.2	253.1	-27.9	-11
Indonesia	14.4	139.5	-125.1	-90	26.0	128.4	-102.3	-80	40.4	267.8	-227.4	-85
Japan	486.1	599.8	-113.7	-19	120.3	137.9	-17.6	-13	606.4	737.7	-131.3	-18
Korea	202.0	480.3	-278.3	-58	576.2	686.5	-110.3	-16	778.2	1166.8	-388.6	-33
Pakistan	158.5	241.5	-83.0	-34	37.2	63.2	-26.0	-41	195.7	304.7	-109.0	-36
Philippines	21.0	7.5	+13.5	+179	188.0	234.4	-46.4	-20	209.0	241.9	-32.9	-14
Singapore	48.6	12.1	+36.4	+300	103.8	127.8	-24.1	-19	152.3	140.0	+12.0	+ 9
Taiwan	143.7	647.1	-503.4	-78	694.4	935.5	-241.1	-26	838.1	1582.7	-744.5	-47
Thailand	39.4	105.7	-66.3	-63	56.9	106.3	-49.5	-47	96.3	212.0	-115.8	-55
Total	1,703.9	3,297.4	-1,591.8	-48	2,857.6	3,843.9	-986.3	-26	4,561.3	7,141.4	-2,580.3	-36

*Less than 0.50 percent.

SOURCE: International Business and Economic Research Corporation.

Appendix III

SUMMARY OF PRESENT VALUE OF COST EFFECTS OF INCREASING IMPORT QUOTAS ON APPAREL AND TEXTILES
(Millions 1984 dollars)

A. Apparel

	(1)	(2)	(3)	(1)-(2)+(3)
		Cost of Employment Changes		Net Welfare
Year	Total Cost	Manuf.	Retail	Loss
1	$2,386	$106	$130	$2,410
2	2,294	0	0	2,294
3	2,206	0	0	2,206
4	2,121	0	0	2,121
5	2,040	0	0	2,040
Total 5 years	$11,047	$106	$130	$11,071

B. Textiles

	(1)	(2)	(3)	(1)-(2)+(3)
		Cost of Employment Changes		Net Welfare
Year	Total Cost	Manuf.	Retail	Loss
1	$ 950	$179	$ 8	$ 779
2	913	0	0	913
3	878	0	0	878
4	845	0	0	845
5	812	0	0	812
Total 5 years	$4,398	$179	$ 8	$4,227

Source: International Business and Economic Research Corporation.

Appendix IV - "Major Exporting Countries"

	%Reduction in trade (a)	Textiles and clothing % of merch. exports 1981 (b)	GNP per cap. $U.S. (c) 1982	GNP per cap. $U.S. (c) 1983	Total Debt 1983 $U.S. millions (d)	Debt Service Ratio (f) (total debt service to exports of goods and services) 1982	1983
Indonesia	-85%	1%	580	560	21,768.8(e)	10.6	12.8
Brazil	-66%	4%	2,240	1,890	79,580.1	43	28.7
China	-57%	2%	310	290	--	--	--
Thailand	-55%	10%	790	810	9,731.1	9	11.3
Pakistan	-36%	41%	380	390	23,071.1	16.4	21.9
S. Korea	-33%	30%	1,910	2,010	--	13.1	12.3
Japan	-18%	4%	10,080	10,100	13,659.4	--	--
Philippines	-14%	7%	820	760	223.7(e)	13.1	15.4
Hong Kong	-12%	42%	5,340	6,000	21,429.2	--	--
India	-11%	23%	260	260	1,243.6(e)	--	14(1985) (g)
Singapore	-9%	4%	5,910	6,660		.8	1.3
Taiwan	-47%	--	2,540	--	---	--	---

(a) Source: International Business and Economic Research Corporation
(b) Source: 1984 World Bank Development Report
(c) Source: 1985 World Population Data Sheet of the Population Reference Bureau Inc.
(d) and (f) Source: World Debt Tables, The World Bank
(e) Excludes: private nonguaranteed external debt, and transactions with the IMF with the exception of Trust Fund loans
(g) Source: Quarterly Economic Review vol. 1, 1984

Appendix - V

Major Exporting Countries

	GNP per capita 1983 $U.S.(a)	Infant Mortality Rate per 1000 (b)	Life Expectancy Rate at birth(b)
Indonesia	560	102	53
Brazil	1,890	73	64
China	290	67	67
Thailand	810	51	63
Pakistan	390	121	50
S. Korea	2,010	32	67
Japan	10,100	7	77
Philippines	760	51	64
Hong Kong	6,000	10	75
India	260	94	55
Singapore	6,660	11	72

(a) Source: 1985, 1984 World Population Data Sheets, The Population Reference Bureau
(b) Source: 1984 World Bank Development Report

Appendix VI

Exporting Countries

	Textiles and Clothing % of Merch. Exports 1981 (a)	GNP per cap. $U.S.(b) 1981	1983	Total Debt 1983 $U.S. millions(c)	Debt Service Ratio (total debt service to exports of goods and services) 1982	1983 (c)	Life expectancy at birth (a)	Infant Mortality Rate per 1000 (a)
Colombia	8%	1,460	1,410	8,147.1	17.6	21.3	64	54
Dominican Republic	--	1,330	1,380	2,403.2	22.7	--	62	65
Israel	6%	5,090	5,360	15,148.8	21.0	19.6	74	16
Lesotho	--	510	470	145.2	2.5	2.5	53	94
Sri Lanka	16%	320	330	2,207.0	10.2	11.9	69	32
Spain	6%	5,430	4,800	----	---	---	74	10
Bangladesh	56%	140	130	4,184.5(d)	10.9	14.7	48	133
Egypt	7%	690	700	15,530.8(d)	26.0	34.0	57	104
Haiti	--	300	320	433.5(d)	5.7	5.3	54	110
Malaysia	3%	1,860	1,870	10,665.2(d)	5.6	5.8	67	29
Peru	8%	1,310	1,040	7,931.5(d)	36.4	19.6	58	83

(a) Source: 1984 World Bank Development Report
(b) Source: 1985 World Population Data Sheet of the Population Reference Bureau Inc.
(c) Source: World Debt Tables, The World Bank
(d) Excludes: private nonguaranteed external debt and transactions with the IMF with the exception of Trust Fund loans

Statement in Support of S. 680

Submitted to the

Subcommittee on International Trade

of the

Committee on Finance

U. S. House of Representatives

by the

Northern Textile Association

211 Congress Street

Boston, Massachusetts 02110

September 25, 1985

The Northern Textile Association represents manufacturers of woolen, elastic, and cotton fabrics, pressed wool and needled-punched felts, and flock producers and processors located primarily in the Northeast, but also in many other regions in the country. Members of the Association strongly support S. 680, the Textile and Apparel Trade Enforcement Act of 1985, which would provide the needed relief from imports so badly required for our domestic industry to survive in the changing international marketplace.

Imports of textiles and apparel increased 25 percent from 1982 to 1983, and by 32 percent from 1983 to 1984. Such dramatic increases in imports have resulted in the loss of 300,000 jobs in the United States textile and apparel industries since 1980. According to a study completed by Data Resources, Incorporated, a prominent economic forecasting company, 947,000 additional American workers will be out of work by 1990 if imports continue to grow by half the 1984 annual rate. This clear indication of pending chaos for our domestic economy can no longer be ignored and deserves your immediate attention.

The Textile and Apparel Trade Enforcement Act of 1985 would correct a situation that has clearly been out of control since 1980. The Multi-Fiber Arrangement, originally created in 1974, intended that developed countries such as the United States allow reasonable growth of imports for developing countries. Twenty-five percent and thirty-two percent annual rates of import growth are not reasonable rates of growth. S. 680 recognizes the need for developing countries to export their textile and apparel products to the American market. The bill would allow for continued strong import growth for smaller exporters.

The Northeast textile and apparel industry has suffered enormously because of record imports over the past several years. Employment in this region's textile and apparel industry has declined 17.3 percent from 1978 to 1984. Closings of the Berkshire Hathaway 100 year-old plant, and Homestead Woolen's New Hampshire plant resulted in 600 layed-off employees alone.

Many of our nation's textile workers live in small communities which are dependent upon the textile mill as a major source of employment. To expect these workers and communities to adapt to the changing marketplace by attracting new industry is inconceivable. Many of the employees are skilled or semi-skilled in occupations which are not directly transferable to other industries. Their families, moreover, live a decent standard of living which would not be possible in the absence of employment in textiles and apparel.

A recent study completed by the Bureau of Labor Statistics revealed that 26 percent of textile workers, and 14 percent of apparel workers layed off between January, 1979 and January, 1984 were still out of work at the end of that period. Given this situation, it is certainly not true that service industries will absorb the great job loss of our textile and apparel industries should imports continue at current rates.

It is unfortunate that S.680 is referred to as "protectionist." The language of the bill recognizes that international market pressures will continue to promote high import levels. The legislation would continue to allow the importation of textiles and apparel whose aggregate quantity is slightly less than half of total American consumption. "Protectionism" is more accurately used to describe Brazil's policy regarding American textile exports, or Japan's policy regarding American agricultural and machinery exports.

Opponents of this legislation often argue that it will cost the American consumer in the form of higher prices. This is absurd. Not only have prices of domestically-produced textiles and apparel been historically about half the U.S. inflation rate, but a recent study of retail store prices completed by Market Research Corporation of America indicates that imported and domestic apparel items are generally priced the same, and in some cases, the imported items are more expensive.

The domestic textile industry is proud of its achievements in the areas of occupational safety and health, where it ranks third among manufacturing industries, and in environmental preservation. Efforts over the past fifteen years to reduce external effects of textile manufacturing on either worker health or the local waterways and air have been greatly successful. The industry, moreover, engages through its trade associations, in a spirit of productive cooperation with local, state and federal government regulatory agencies.

Capital investment in the textile industry has also been impressive over the past few years. In the face of historically low rates of inflation for textile and apparel products, and reduced market share because of imports, the industry has continued to look to the future by investing $1.7 billion in 1984 for capital improvements. Automated manufacturing technology is a vital part of our industry's efforts to compete, and, given the adequacy of a market for our goods, will reap profits for many years to come.

It is the domestic market which the United State textile and apparel industries count on for the future. Foreign governments have imposed import restrictions which in many cases completely eliminate any export opportunities for our industry. If S. 680 is passed into law, we will be able to continue to supply the domestic market with quality, low-priced products for many years to come. In addition, the continuity of employment which is so important to the many textile and apparel workers in this country, many of them women and minorities, will be realized.

CALIFORNIA COUNCIL FOR INTERNATIONAL TRADE

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October 6, 1985

To: All Members of the Senate Finance Committee
All Members of the House Ways and Means Committee

cc: Hon. Clayton Yeutter, U. S. Trade Representative
Hon. Malcolm Baldrige, Secretary of Commerce
Hon. James Baker, Secretary of the Treasury
Hon. Strom Thurmond, U.S. Senate
Hon. Ed Jenkins, U.S. House of Representatives
All Members of the California Congressional Delegation

From: Arch Hardyment, President
Harry B. Endsley, Chairman, Legislative Committee

The California Council for International Trade ("CCIT"), which includes some 800 members from all regions of the state of California, is the state's leading non-profit, private sector association devoted exclusively to the healthy expansion of international business. CCIT has previously expressed to you its deep concerns and misgivings about the Textile and Apparel Trade Enforcement Act of 1985 (S. 680 and H.R. 1562) but, in view of its continued active consideration by both chambers of Congress, CCIT feels compelled to reiterate the nature of these concerns.

The continued retrenchment and dislocation of the domestic textile industry is, without question, a suitable object of Congressional concern. Nevertheless, the Textile and Apparel Trade Enforcement Act of 1985 (the "Act") is a misapplication of that concern and is fundamentally defective for a variety of reasons. All of these reasons are of concern to the state of California.

A. The United States textile industry suffers from an inexorably declining comparative advantage. This industry is not the victim of unfair trade practices but instead of low labor costs overseas and low labor productivity in the U.S. The only effective solution is for the industry itself to attempt to offset this declining advantage through automation and the employment of advanced technologies which will, in themselves, result in serious labor displacement. There is reason to believe that much of the current job losses in the textile industry is in fact due to such attempts to automate which, if the intent is to preserve our textile industry, is a healthy response and not a deleterious one. CCIT believes that the role of Government in this context should be to fashion a program whereby perhaps the Government, but far more preferably private industry, will retrain textile workers to keep up with advances in their current fields or to learn new ones. The role of Government should not be to attempt to preserve a declining industry in aspic, thus defying the impact of world competition.

B. CCIT is also concerned that the Act, like any protectionist legislation, will subject other sectors of the economy to retaliation, will simply reshuffle jobs from industries which are competitive to the textile industry, which is not, and will impose costs on the consumer and additional burdens on the U.S. taxpayer.

(i) California exporters may suffer greatly as a result of passage of the Act. Our state's leading exports, including cotton and other agricultural products, electronic components, petroleum products, office machines, scientific instruments, aircraft and other items, are all subject to the very real possibility of retaliation if this bill is enacted. The People's Republic of China has strongly intimated that they will retaliate and others would probably follow suit. As indicated above, the effect of retaliation will be to damage those industries in which we enjoy a comparative advantage in favor of one in which we do not, a curious Congressional purpose.

(ii) CCIT accepts the view that protectionism generally tends to reshuffle jobs and not to save them. In this case, jobs and job opportunities will be lost in a wide variety of sectors, including importing, shipping, domestic transportation and our vital export industries. Estimates we have seen place the estimated job losses in the retail and other industries as nearly equivalent to the estimated job gains in the textile industry, which seems to us an inappropriate exchange.

(iii) We are also concerned about the costs to the economy of this legislation. Some leading economists estimate that each job saved by protectionism can cost the economy $50,000 to $100,000 or more. These resources should, we believe, be directed to a more appropriate purpose. The costs to the consumer of this legislation are also manifest and would be measured in the tens of billions of dollars.

C. CCIT does not propose in this communication to consider the technical problems of this legislation, such as its failure to address the problems of imports from the European Economic Community and Canada, which are a substantial part of the textile story, the fact that it very likely violates numerous bilateral agreements adopted under the framework of the Multifiber Arrangement ("MFA") and the MFA itself, and the undesirability of creating a new bureaucratic scheme to license textile imports. We simply urge that this legislation be voted down and that Congressional energies be turned toward Congress's real responsibilities: elimination of the current $200 billion budget deficit and substantial cuts in spending. These are the solutions for the trade problem, for the one will eliminate the artificially high cost of the United States dollar on the exchange markets, and the second will free up resources for the private sector and lower the cost of U.S. production, helping to make our industries competitive again at the world level. These efforts will benefit the textile industry far more than unwise and defective pieces of trade legislation.

Arch D Hardyment
Arch Hardyment
President

Harry B. Endsley
Harry B. Endsley
Chairman,
Legislative Committee

OCTOBER 4, 1985

To: The International Trade Sub-Committee
of the Senate Finance Committee,
United States Senate,
Washington, D.C. 20510.

For Inclusion In The Hearing Record
For S.680

Hearing Date: September 23, 1985

بسم الله الرحمن الرحيم

Ambassador

EMBASSY OF THE
PEOPLE'S REPUBLIC OF BANGLADESH
Washington, D.C.

WHY THE TEXTILE BILL SHOULD NOT APPLY TO BANGLADESH

The Honorable Ed Jenkins (D-Ga.) recognizes that accelerated U.S. imports of textiles and apparels from Bangladesh comports with the ' Jenkins/Thurmond' bill. ('Imports are Killing the Textile Industry', The Washington Post, 8-31-85 at A-19). The Government of Bangladesh appreciates this concession to Bangladesh's peculiar - and we hope short-lived-- status in the world, which is characterized by the following.

1. Bangladesh is the most crowded nation in the world, behind the city- states of Hong Kong and Singapore. Bangladesh's 100,000,000 people live in an area the size of Wisconsin. To be burdened with equal density, the continental United States would need host the entire world's population.

II. The per capita income of Bangladesh is $126 - less than a candy bar a day in the U.S.

III. Bangladesh has more than 30% unemployment.

IV. Bangladesh had a 1983-84 balance of payment deficit of $1.053 billion - 13.6% of its GNP. The United States, Bangladesh's major trading partner, contributed to this since it exported to Bangladesh twice as much as it imported. Interestingly, a major U.S. export to Bangladesh is cotton and used clothing!

V. The balance of payments deficit slashed Bangladesh's foreign exchange reserves; from $552 million in March, 1984, to $397 million just 8 months later.

VI. The United States correctly observes that " [T]o overcome its large trade deficit and to reduce dependence on foreign aid, Bangladesh emphasizes the development of export-oriented industries." (Department of State Background Notes, 7-84, emphasis at 6,) This policy comports with the U.S. administration's repeated promptings for Bangladesh to promote and encourage private enterprise investments. In 1982, Bangladesh denationalised much of its textile industry, a significant share of textile mills reverting to their former owners.

VII. Free enterprise is working in Bangladesh which had undertaken a socialist economic policy at its inception.

VIII. The textile industry is critical for Bangladesh. The textile industry employs 200,000 people, directly and indirectly, 90% of whom are women, and provides over 8% of the country's limited export earnings.

IX. Jute currently provides Bangladesh with more than half of its total export earnings; Bangladesh being the world's top exporter of jute. But, according to the U.S. State Department, jute may be a "dying commodity", in light of increasing competition from synthetics. (U. S. Embassy/ Dhaka Airgram to Department of State, Washington, D.C. 3-31-84,at 9).

X. Bangladesh is responsible for about .25% of all U.S. garments imports. The legacy of Hong Kong, Taiwan, and Korea should not cripple Bangladesh's infant garment industry.

XI. The political effects of a healthy Bangladesh economy are in the U. S. interest. Reducing the unemployment rate would help ensure political stability, while increasing unemployment could push the nation to the brink of communism if not social anarchy.

XII. Bangladesh is a non-alligned nation with strong U.S. ties. The State Department describes U.S. - Bangladesh relations as " warm and positive." (Department of State Background Notes). As previously stated, the U.S. is Bangladesh's major trading partner. Since 1971, the U.S. has provided Bangladesh with about $2.3 billion in economic and food assistance. Communist aid to Bangladesh is dwarfed by aid from the West and the Middle East.

XIV. Embattled against the calamities that form the world's view of their country, the Bangladeshis - a hardworking people - have at last found a suitable means for weaning themselves from outside assistance. (Ironically, the 17th century Bangladeshis prospered through sales of silk fabrics and muslin weaves; a trend halted by the British introduction of machine-made textiles.) The people of Bangladesh prevail upon the understanding and good-will of the American people to allow this struggling nation growing space for its textile industry. Mindful of the legitimate concern of the U.S. textile and apparel workers to avoid market disruption, Bangladesh will establish increased category diversification as soon as practical.

A. Z. M. OBAIDULLAH KHAN

September 20, 1985

The Honorable
Robert Packwood
Senate Committee on Finance
Dirksen Senate Office Building
Room 219
Washington D.C. 20510

Re:Trade Subcommittee Hearing;
S.680

Dear Mr. Chairman:

Enclosed herewith please find six copies of the written comments of interested Caribbean Basin countries on S.680, currently scheduled for hearings before the Trade Subcommittee on September 12 and 23. These comments address, in a general way, the potential impact of proposed textile restrictions on countries in the Caribbean Basin. We hope that you will consider our collective viewpoint as you analize this proposed legislation.

Sincerely,

Juan Agurcia E.
Honduras

Dr. Pablo Mauricio Alvergue
El Salvador

Edward Laing
Belize

Keith Johnson
Jamaica

Federico Vargas
Costa Rica

P.D. Laurie
Barbados

Gabriel De La Guardia
Panama

Edmund Hawkins Lake
Antigua and Barbuda

Dr. Adrien Raymond
HAITI

Eulogio Santaella
Dominican Republic

Enclosures.

cc: Honorable Sam Gibbons,
Chairman
House Ways and Means Committee
Subcommittee on International Trade

WRITTEN COMMENTS OF THE
CARIBBEAN TEXTILE PRODUCING COUNTRIES
BEFORE THE
SENATE FINANCE COMMITTEE
SUBCOMMITTEE ON INTERNATIONAL TRADE
REGARDING
S.680; THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

September 12 and 23, 1985
Washington, D.C.

I. Overview

On January 1, 1984, the United States Government fully implemented the free trade and tariff provisions of the Caribbean Basin Economic Recovery Act. To date, 22 countries have qualified as CBI eligible.* While CBI trade incentives excluded textiles and apparel by the specific terms of the legislation, textile manufacture has been identified by almost every international economic consultant as a primary area where Caribbean countries enjoy a comparative trade advantage with respect to the United States export market. Not surprisingly, efforts are underway in many of our countries to consolidate or modestly expand the scope of our textile exports to the United States.

The Caribbean Basin Initiative provides 12 years of tariff incentives for CBI nations. Yet a review of trade statistics one and one-half years after CBI designation reveals that living standards in CBI countries have not improved and progress in

* Antigua/Barbuda, Barbados, Bahamas, Belize, British Virgin Islands, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, Montserrat, Netherlands Antilles, St. Christopher/Nevis, St. Lucia, St. Vincent/Grenadines, and Trinidad/Tobago(Caribbean). Costa Rica, El Salvador, Guatemala, Honduras and Panama(Central America).

creating new export industries is lagging greatly behind the expectations that accompanied passage of CBI.

It is clear that much of our current economic difficulty stems from erosion in export earnings associated with a sharp decline in major commodity trade on which our countries depend so heavily. This decline has been caused by a number of factors and has offset any positive U.S. trade gains for CBI countries.

If the CBI is to realize its promise as a trade rather than an aid program, trade protectionism must be avoided. CBI countries must be free from concern about the pursuit of long-term industrial strategies with U.S. and foreign businessmen and free from fear that established trade policies will be abrogated and duties or quotas reimposed. We have already witnessed the introduction of legislation in this session of Congress to repeal or modify certain aspects of the CBERA. It is our primary purpose in these written comments to indicate our concern over any amendment or repeal of the CBI and express our strong opposition to new trade restraints against CBI produced goods not included in the original CBI legislation. U.S. private investment in our region will be severely curtailed if the impression is created that the CBI trade incentives are ephemeral and subject to periodic modification by the U.S. Congress.

II. S.680: Textile Export Levels from CBI Countries

In 1984, the value of all U.S. imports from the Caribbean totalled $5.5 billion, up slightly from a figure of $5.3 billion in 1983. Textiles and apparel accounted, in the aggregate, for $239 million of value in 1984 and $192 million in 1983.* Textiles represented therefore, only 4 percent of total U.S. dollar imports from CBI countries last year. It cannot be said that our region is a proximate or even a distant cause of the domestic market disruption referred to by the sponsors of S.680.

The largest CBI exporter of textiles to the U.S. is the Dominican Republic which supplied only 1.23 percent of total U.S. imports last year. Next was Haiti with 0.79 percent. The total percentage for all twenty-two CBI countries is considerably less than 4 percent of total U.S. textile imports. These U.S. Department of Commerce figures should confirm for the committee the infancy of the textile industry in the Caribbean region when compared to those textile exporters in the Far East and Europe. Not one of the 22 CBI eligible countries is a major textile exporter to the U.S. under the terms of sec.(4)(5) of S.680. It is most important that this exemption be retained and preserved for modest expansion of our existing industries.

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* Report by the U.S. Department of State on the Caribbean Basin Initiative: Progress to Date, Doc. #5954, July 1985.

III. Specific Provisions of S.680

While we do oppose the concept of additional textile restraints, we have noted that the drafters have already given some consideration to the particular problems faced by CBI and other developing countries. If the Committee does act on this bill, additional thought must be given to the difficulties that will be caused by capping(even at a more liberal level) the exports of CBI countries with developing textile industries. Permitting a 6 percent growth adjustment in exports in a given year for a CBI country may seem generous on the surface when compared to 1 percent growth for developed countries, but if a country has little or no textile production today, the practical effect of such a restraint may be to preclude altogether the construction of even a small textile facility. Given the small amount of exports from CBI countries, it would seem that more liberal limits could be accomodated without any appreciable impact on total U.S. imports.

The U.S. Customs Service finalized new country of origin rules in March 1985* that were designed to ensure that U.S quotas on garments were not evaded by transshipment through third countries. The adoption of these value added requirements should provide an added degree of safety to U.S. trade officials in monitoring textile imports. Thus, allowance of a more liberal CBI textile import policy can assume with confidence that any new exports will be attributable to a substantial new textile investment rather than transshipment from large producers who have already filled their quotas for a given period.

IV. Potential Conflicts with Existing Textile Agreements

Several CBI textile producers have already negotiated textile agreements with the U.S. Government regarding certain categories of apparel. S.680 as presently drafted may operate to interfere with the specific provisions of these agreements. For example, some agreements provide that if a country shortfalls in one year in a given category, the foregone volume of allowable imports may be carried over to a subsequent year. We would urge that the Committee protect the flexibility that has been carefully bargained for in the context of these particular bilateral agreements in any legislation that may be reported.

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*T.D. 85-38; 50 Fed.Reg.No.43 p.8710 et seq., March 5, 1985.

V. Handicraft Textiles and Traditional Folklore Textile Products

We would note that the provisions of S.680 make no allowances for the import of handloomed fabrics or textile products of the cottage industry variety outside the framework that is outlined in the bill. Many CBI countries -- particularly the smaller, poorer islands -- have an ability to produce and supply a U.S. demand for these relatively unique items. Certain countries have experienced great difficulty in obtaining a proper U.S. Customs classification for handicraft kits, batik, and handloomed items. If the Committee does report a bill, we would urge that handicrafts and traditional textile items be clearly excluded from the quota limitations and that classification procedures be simplified and clarified. Currently, some handicraft kits designed to be assembled by the ultimate purchaser are being dutied as a textile product, even though the yarn or material is of U.S. origin.

VI. Section 807 and S.680

S.680 does not address how the proposed quota limitations would interact with Sec. 807 of the U.S. tariff law. Almost all textiles currently exported to the U.S. from Caribbean countries are produced from fabric of U.S. origin and reexported to the United States. Again in the case of the two largest Caribbean producers the ratio of total 807 exports to the United States in 1983 was $137 million out of a total of $139 million from the Dominican Republic and $73 million out of $80 million for Haiti. This type of textile trade creates jobs in the United States as well as the Caribbean. If it is indeed the desire of the United States to encourage textile trade under the ambit of Sec. 807, it would seem that the newly proposed quota restrictions ought to be considerably more liberal with respect to those countries who have a higher percentage of Sec. 807 trade with the United States. Otherwise an incentive may be indirectly created that would encourage the demise of Sec. 807 trade and the consequent filling of permissible quotas with garments produced from non-U.S. fabric. Such a development would operate to the detriment of both CBI countries and U.S. workers.

VII. Conclusion

The points enumerated above constitute our general concerns on S.680. Though textiles are dutiable items under the U.S. tariff law even if of Caribbean origin, CBI countries oppose restrictions in the currently drafted legislation that would restrict by quotas the future growth of a very small industry in which we do possess a comparative trade advantage. Given the recent declines in U.S. trade experienced in our traditional export sectors, we must hope for improvement in exports of textiles and light manufactured goods. Given the very high rates of unemployment in the C.B.I. growth in the labor intensive textile sector is almost imperative if our economies are to improve. In many cases, employment in the textile industry is the only viable work option for women in our countries. Further restraints on textiles will only increase our employment problem, ultimately resulting in increased immigration to the United States from our region. It is to be hoped that the current legislation, if it moves forward, can be modified in such a fashion so that our present and future plans for modest textile development are not disrupted.

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